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## CHINA REPORT ECONOMIC AFFAIRS

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## NATIONAL POLICY AND ISSUES

### 'JINGJI GUANLI' ON OVERALL REFORM OF ENTERPRISES

HK160735 Beijing JINGJI GUANLI in Chinese No 3, 15 Mar 82 pp 3-5

[Report by JINGJI GUANLI reporter: Interview with State Economic Commission Minister Yuan Baohua [5913 1405 5478]: "Existing Enterprises Must Be Reorganized and Managed in an Overall Manner"]

[Text] Recently a JINGJI GUANLI reporter interviewed the State Economic Commission Minister Yuan Baohua on the question of carrying out all-round reorganization of industrial enterprises. Comrade Baohua first briefed the reporter on the situation where at present the industrial and communications front throughout the country has studied and implemented the "Decision of the CCP Central Committee and the State Council on Carrying out the All-Round Reorganization of State Enterprises." He said: The decision of the CCP Central Committee evoked enthusiastic response from the broad masses of staff members and workers. Everybody agreed that the CCP Central Committee's decision to spend 2 or 3 years to carry out the all-round reorganization of enterprises was a necessity for the development of China's economic situation and an extremely important task. Grasping well the all-round reorganization of enterprises in a down-to-earth manner will play an important role in consolidating and developing the achievements gained in the last 2 years of economic readjustment and restructuring, in effecting a fundamental turn for the better in the situation of the national economy and in advancing the four modernizations program.

Then Comrade Yuan Baohua answered the following questions raised by the reporter.

#### I. What Achievements Have Been Made in the Reorganization of Enterprises Over the Last new Years?

After the smashing of the gang of four, the industrial and communications front, combined with exposing and repudiating the Lin Biao and Jiang Qing counterrevolutionary cliques, carried out the campaign of learning in industry from Daqing and carried out reorganization of enterprises for recovery. The stress was placed on solving the problems of purifying the leading bodies of enterprises, establishing necessary rules and regulations and restoring normal order in production. By the end of 1979, most of the enterprises at the county level or above throughout the nation had been reorganized to varying degrees.

Ninety percent of large and medium-scale enterprises reached the reorganization standards formulated in the "30 industrial regulations." Advanced enterprises emerged in large numbers all over the country and more than 12,000 enterprises were named Daqing-style enterprises. Normal production was resumed in China's industrial and communications enterprises.

After the 3d plenary session of the 11th CCP Central Committee, the industrial and communications front implemented the policy of readjustment, restructuring, reorganization and upgrading and a series of policies of the CCP Central Committee, gradually got rid of the prolonged influence of "leftist" guiding ideology, upheld the principle of seeking truth from facts, integrated economic measures with administrative measures, advanced further the work of reorganization of enterprises and thus new changes took place in the operation and management. All this is manifested mainly in:

1. Through reorganization the leading bodies of enterprises have moved a step further on the road to "becoming more revolutionized, younger, more educated and professionally more competent" and the proportions of middle-aged and young cadres and of technically professional cadres have become larger. The leadership system of enterprises has been perfected step-by-step in the light of the principle of "collective leadership by the party committee, democratic management by the staff and workers and the factory director taking command in administration and production." The system under which the factory director assumes full responsibility for production under the leadership of the party committee and the system of staff and workers congresses has been introduced on a relatively wide scale. In the enterprises which have been run quite successfully, the prestige of the party has increased, the authority of administrative command has become effective and the [word illegible] life of staff and workers has become livelier than that in the past.
2. The basic work of enterprises has been universally intensified. A section of enterprises carried out overall quality control, business accounting and the training of all staff and workers and thus achieved initial successes. The management of our industrial enterprises has begun to change from the previous pure production management to all-round operational management. This is, the management of the whole process of production and operation ranging from market surveys and forecasts, the study, designing and manufacture of products to the work of marketing and servicing.
3. Over the past 2 years, the experiment of expanding the decision-making power of enterprises has been carried out and last year the industrial production economic responsibility system was trial implemented. Tentative investigation was done on the questions of how to realize the correct integration of the interests of the state, the enterprises and the individual staff and workers, of how to carry out the management system of combining responsibility, authority and benefit under state planning and of how to introduce the economic responsibility system in the inner departments of enterprises. Some achievements have been secured in this.
4. In the course of economic readjustment, industrial reorganization and integration has been promoted in accordance with the requirement and integration has been promoted in accordance with the requirement for a rationalized structure of enterprises. A number of enterprises have already been

and various forms of business companies have been set up, thus improving the level of specialization and coordination in production. All this has proved, as the CCP Central Committee pointed out, that China's industrial enterprises already have a good beginning in embarking on the new path of developing the national economy. However, the development of the reorganization of enterprises is uneven and only a minority have really been reorganized in a satisfactory way.

## II. Why Are the Enterprises Being Reorganized in an Overall Manner? Why Is the Overall Reorganization a Constructive Reorganization?

Overall reorganization means managing the various work of enterprises in an overall manner with the improvement of the economic effect as the center. This includes the reorganization of the leading bodies, the ranks of staff and workers, the management system, the work units, labor discipline, financial and economic discipline and the party work style and the strengthening of political and ideological work. The technical transformation and the production and construction of enterprises should go hand in hand with its overall reorganization. The overall reorganization of enterprises includes a wide range of things, from material civilization to spiritual civilization involving the various links of production, supply, marketing, manpower and material and financial resources. The various tasks of an enterprise are interrelated and influence and complement each other. The reorganization of enterprises should be carried out in a planned and orderly way, in accordance with the principle of importance and priority by taking the overall situation into account and stressing the central link. The method of treating the head when the head aches and treating the foot when the foot aches is not able to attain the aim of reorganization. In the past, some enterprises carried out reorganization several times and improvements were thus made for a period of time but were difficult to consolidate. The fundamental reason for this state of affairs was that we failed to stress the crucial point and lacked overall management. We summed up the past experiences and formulated the task of carrying out overall reorganization. The leaders of enterprises are thus required to conduct a thorough investigation and make a detailed analysis of the actual condition of enterprises, to expose problems and seek the cause and then to solve them one by one.

Why do we say that overall reorganization is a constructive reorganization? This term is mainly used relative to the previous recovery reorganizations. Constructive reorganization requires a qualitative change and new advances and improvement rather than mere recovery and consolidation of the past good things. Of course, the carrying out of constructive reorganization includes the recovery and consolidation of the past good things. Just as there were new advances in some respects in the course of recovery reorganizations, these two reorganizations crisscross and are interrelated, and no hard and fast line can be drawn between the two. Generally speaking, the constructive reorganization is carried out on the basis of the completion or the basic completion of the tasks of recovery reorganization.



With a higher point of departure, the goal and requirements of constructive reorganization are also raised. This reorganization is aimed at enabling the various work of enterprises to really get onto the new path of developing the national economy. This is to say, there must be a new breakthrough and improvement in accordance with the requirements of taking a new road in guiding ideology, and in systems and methods of enterprise operation and management. Whether better economic effect is really achieved or not should be taken as the indication. The CCP Central Committee made a decision that we should carry out the "3-item construction" and fulfill the "6-good requirements," that is, through overall reorganization, we must gradually establish both a democratic and centralized leadership system, a contingent of staff and workers who are both red and expert and a set of scientific and civilized management systems. Through the "3-item construction" we must enable the enterprises to correctly handle the economic relationships of the state, the enterprises and the individual staff and workers, to splendidly fulfill the state plans and to become "6-good enterprises" which are good at giving consideration simultaneously to the 3 items of construction, in terms of product quality, economic effect, labor discipline, civilized production and political work. This is the basic requirement and goal of struggle in carrying out construction in the course of overall reorganization. If our enterprises can reach this level, a completely new appearance will emerge in the economic situation of our country.

The overall reorganization is carried out in the new situation where the "8-character policy" has been implemented in a thorough-going way and certain advances have been achieved in the readjustment and restructuring. We are required to consolidate and develop the achievements scored in the readjustment and restructuring and find solutions to the new problems which have cropped up in the new situation. For example, the economic responsibility system which is being universally carried out on a trial basis among state enterprises is a new operational and management system. Being established only a short time ago, there are some problems in this system which need to be perfected in the course of reorganization. As a further example, some enterprises have been initially organized and have established various forms of companies in accordance with the requirements of a rationalized structure of enterprises and the principle of specialization and coordination in production. There also exist some problems in the operational and management as well as the leadership system of companies which need to be solved in the course of all-round reorganization so as to ensure their healthy development. A further example is in the policy which gives priority to the planned economy with regulation by market mechanism as a complement. Over the past years, many enterprises have accumulated quite a few experiences in giving play to the role of regulation by market mechanism but there are also some problems in this respect which need to be solved in the course of reorganization. In short, the overall reorganization of enterprises must on the one hand, consolidate the achievements made in the last 2 years of readjustment and restructuring and on the other hand create conditions for further readjustment and restructuring. The overall reorganization is constructive in nature and is aimed at further advance.

### III. How Should the Overall Reorganization of Enterprises Be Carried Out? To What Problems Should Attention Be Paid?

The CCP Central Committee has clearly defined the principles and tasks for overall reorganization. At present, our task is to conscientiously carry out and concretely implement them. First of all, it is necessary to profoundly understand the great significance of the overall reorganization of enterprises, raise our understanding and strengthen our confidence in forging ahead. It is imperative to pay attention to solving all kinds of incorrect ideas existing among a section of cadres, to thoroughly propagandize and mobilize the broad masses of cadres and workers and to consciously do a good job of the tasks of reorganization. Second, it is necessary to formulate programs for overall reorganization and draw up measures for realizing the programs in the light of the actual condition of enterprises, to choose the thrust and then proceed in an orderly and step-by-step way and to adhere to successfully carrying out the all-round reorganization through to the end. Third, the responsible comrades of the economic leading organizations at various levels must lead groups of cadres to stay at selected lower levels in order to conduct investigations, to help enterprises seek solutions to problems and gain firsthand experience for guiding overall work. Further, the reorganization of enterprises involves many matters of policy for which the CCP Central Committee has clearly formulated the principles. We must sum up experience in good time in practice, and objectivize them so as to ensure the healthy development of the enterprise reorganization tasks.

The overall reorganization of enterprises is an arduous and painstaking task. Since the situation varies from enterprise to enterprise, it is necessary to uphold the principle of seeking truth from facts and not to find a single solution for diverse problems; pay attention to practical results and not indulge in formalism. It is necessary to pay attention to the coordination and congruities of the various tasks and not to concentrate on one thing only. It is necessary to integrate the reorganization of enterprises with actual production, to carry out reorganization while developing production and to develop production along with reorganization. It is also necessary to link the reorganization of enterprises with readjustment and restructuring, to readjust the product mix and the organization structure of enterprises in the course of reorganization and to restructure the operational and management system so as to enable it to suit the readjustment and restructuring of the macro-economy. It is necessary to combine the reorganization of enterprises with the activities of emulating, learning from, catching up with and helping each other. While drawing up programs for overall reorganization, every enterprise must have clear objects to learn from and to catch up with, find out where it falls short compared with advanced units and particularly see where it lags behind in terms of economic effect and mobilize the masses to make concerted efforts to try to catch up with and surpass advanced units. Advanced units must also do this. They must not only compare themselves with the domestic advanced levels but also try hard to catch up with and surpass the international advanced standards. The reorganization of enterprises should be combined with the study and application of modern management and the popularization of carrying out the technical transformation of enterprises with the utilization of advanced techniques so as to [word illegible] build

our enterprises into modernized socialist enterprises with Chinese characteristics. In brief, so long as we do a solid and good job of the overall reorganization of enterprises, manage the various tasks of enterprises in a conscientious and overall manner, the economic effect of our national economy will be substantially improved and the pace of socialist modernization will be significantly accelerated.

CSO: 4006/405



'JINGJI GUANLI' ON ENTERPRISE REORGANIZATION

HK160945 Beijing JINGJI GUANLI in Chinese No 3, 15 Mar 82 pp 6-9

[Article by Jiang Yiwei [5592 0001 5517]: "Overall Reorganization of the Enterprises Is a Constructive Reorganization"--passages within slantlines denote boldface]

[Text] Editor's note: Comrade Jiang Yiwei's speech on the overall reorganization of enterprises consists of a total of five parts: 1. Why should the enterprises be reorganized in an overall manner? 2. Pay close attention to the present five tasks with the improvement of the economic effect as the focal point. 3. Establish centralized leadership system which is both democratic and centralized. 4. Establish a contingent of staff and workers who are both red and expert. 5. Establish a set of scientific and civilized management systems. This magazine will publish the speech in installments and in stages with a part in each issue, for the readers' reference. Excerpts of the first part of the speech which is carried in full now in this issue were published in RENMIN RIBAO. Here we publish the full text.

I. Why Should the Enterprises Be Reorganized in an Overall Manner?

The CCP Central Committee has made a decision that we should spend 2 or 3 years, beginning from this year, in carrying out overall reorganization of the state-owned industrial enterprises.

It is known to all that the reorganization of enterprises is not a question which has just been raised recently. After the smashing of the Jiang Qing counterrevolutionary clique, the work of reorganization of enterprises began. The policy of readjustment, restructuring, reorganization and upgrading formulated by the 3d plenary session of the 11th CCP Central Committee listed reorganization as an important task. The various departments and regions have done a lot of work in the reorganization of enterprises and have achieved remarkable successes. Why then, should the enterprises be further reorganized now and furthermore, why should 2 or 3 years be spent in carrying out the "overall reorganization" of enterprises?

In my opinion, to answer this question, it is still necessary to start with the "8-character policy".

To deal with the crucial problems existing in the development of China's national economy, the 3d plenary session of the 11th CCP Central Committee formulated the policy of readjustment, restructuring, reorganization and upgrading. This is a complete policy which ensures the steady and healthy development of our economy. Readjustment, restructuring, reorganization and upgrading are closely related and mutually interact with each other rather than are isolated from each other. The task of readjustment is mainly to put an end to China's irrational economic structure and to overcome the phenomena of serious disproportion in the national economy. This is a central link in the 8-character policy. The main task of restructuring is to restructure our irrational economic management system and to open a way for further emancipating the productive forces. However, regardless of whether it is readjustment or restructuring which is best, it should eventually be implemented in the basic units of the economy. Therefore, while carrying out readjustment and restructuring, it is necessary to correspondingly reorganize the basic economic units and lay a solid foundation for the healthy development of the whole national economy. Only when we carry out these various tasks in an integrated way, can we eventually attain the aim of raising the level of our economy and improve the economic effect.

In a broader sense, reorganization is, of course, not confined only to the reorganization of basic economic units but includes the reorganization of leading economic organizations. This question has now been put on the agenda. However, the stress of reorganization still undoubtedly lies in the reorganization of basic economic units, and industrial enterprises in particular.

The great significance of the reorganization and construction of industrial enterprises to the development of the whole national economy is quite evident. Politically, industrial enterprises are where the working class assembles; economically, 90 percent of the state's financial revenue comes from the taxes and profits handed over to the state by industrial enterprises; technically, the improvement of the technical level of industrial enterprises constitutes the leading factor in accomplishing the four modernizations. For this reason, the quality and mental attitude of the contingent of the staff and workers of enterprises, the level of production techniques and managerial skills of enterprises and the economic effect of the production operations of enterprises all play a key role in our socialist modernization program.

The influence of leftist guiding ideology and some faults and errors committed in our work, particularly the perverse acts of the Lin Biao and Jiang Qing counterrevolutionary cliques during the 10-year disorder hindered the development of our socialist construction and as a result, the superiority of socialism was not brought into effective play and the vast numbers of industrial enterprises, suffered the lifelines of the national economy, suffered serious damage. After the smashing of the gang of four, especially since the 3d plenary session of the 11th CCP Central Committee, reorganization has been carried out many times; ideologically, order has been brought out of chaos; organizationally, scoundrels who sneaked into the leading bodies have been

ferreted out; and in terms of enterprise management, normal production order has been restored. Furthermore, the implementation of the 8-character policy has aroused the enthusiasm of the enterprises and the broad masses of staff and workers. There is a world of difference between the appearance of today's enterprises and that of the enterprises during the 10-year disorder. If the task of reorganization is only to put an end to the extremely abnormal phenomena during the 10-year disorder, it can be said that the task of reorganization has long been completed. However, as an important component part of the party's 8-character policy, reorganization is a high priority requirement. Now the CCP Central Committee and the State Council have formulated that we should spend 2 or 3 years in carrying out the "overall reorganization" of the enterprises. By the addition of the two characters "overall," we mean distinguishing this reorganization from the past reorganizations. This reorganization is carried out in the new situation where the readjustment of the national economy is constantly developing in depth, the restructuring of the economic management system is continuing to advance and the steady development of the national economy has been ensured. It is an important strategic plan for implementing the 8-character policy in an overall manner.

"Overall reorganization" and the former reorganizations are both related and different. Overall reorganization is based on the former reorganizations. It is a reorganization with higher requirements. The difference between overall reorganization and the former reorganizations lies, as I see it, in at least the following aspects:

/First, overall reorganization is a reorganization of overall importance./

The work of enterprises is quite complicated, ranging from the question of the production relationships to that of the organization and development of the productive forces and from the question of production techniques to that of operation and management. In raising the level of production techniques and managerial skills and in improving the economic effect of the production operations of enterprises, at all times there are large numbers of concrete problems calling for solution. Over the last few years, we have done a lot of work in reorganization. Many departments and regions have drawn up numerous requirements and standards for the reorganization of enterprises and the results of reorganization have been checked and accepted item by item. There may possibly exist tendencies of formalism in some aspects of this method, but generally speaking, the results of this method are satisfactory. It has resulted in great successes. Now that so much concrete reorganization has been done, can it be regarded as an overall reorganization? It is still far from so. This is because, judged from its contents, the main stress in the past was on the reorganization of the internal production management of enterprises. By a reorganization of overall importance, we mean formulating longer-term goals and drawing up plans for the reorganization of enterprises from the angle of a higher plane. First, it is necessary to further reorganize the enterprises in the light of the overall implementation of the 8-character policy, that is to say, in the light of the requirements for the further readjustment of the national economy and the orientation of development of structural reform. Second, it is necessary to proceed from the socialist system and China's national condition in considering how to build the enterprises into modernized socialist enterprises with highly developed material and spiritual civilizations in a planned and orderly way.



Of course, giving consideration to the reorganization of enterprises on a higher plane does not mean requiring the enterprises to reach a high level right away. However, whether we have such an overall point of view or not makes a world of difference. In carrying out the overall reorganization, it is similarly necessary to do a lot of painstaking and concrete work of reorganization. In addition, it is necessary to carry it out in an orderly manner in the light of the principle of importance and priority. We should not carry it out in a way of treating the head when the head aches and treating the foot when the foot aches but rather in a way of having the general goal in mind but starting with concrete tasks and ordering every concrete item of reorganization from the overall point of view.

/Second, overall reorganization is a comprehensive reorganization./

At present the problems existing in the enterprises are numerous. Through the reorganization over the past few years, the enterprises whose various tasks have been fulfilled quite successfully still constitute a minority and the enterprises whose problems are relatively serious also constitute a minority. But most of the enterprises still have problems of one kind or another. Either the leadership system is imperfect and the leading bodies are weak and lax or the quality of the contingent of staff and workers is poor, the political and ideological work is weak and work discipline is lax; or the management system is imperfect and the effect of production operations is poor. In a small number of enterprises there still exist serious phenomena, such as confused leading bodies, unhealthy tendencies, serious violations of financial and economic discipline and even corruption, theft and bribery, phenomena which infringe laws and violate discipline. It goes without saying that these problems should be solved in the course of overall reorganization.

Since the 3d plenary session of the 11th CCP Central Committee, the implementation of the 8-character policy has posed many new tasks and requirements for the enterprises. Many enterprises are asked to readjust their production orientation and change the product mix; some enterprises whose planned tasks are insufficient are required to develop new product varieties so as to adapt themselves to market demands; quite a few enterprises have been carrying out the experiment of expanding the decision-making power of enterprises and many more enterprises are introducing the economic responsibility system. All enterprises are obliged to implement the provisional regulations on staff and worker congresses and some enterprises are still designated to carry out the experiment of restructuring the leadership system. In terms of the improvement of enterprise management, quite a few enterprises have enthusiastically carried out overall quality control, business accounting and planning and started training of all staff and workers. Enterprise party committees have further strengthened party leadership over the enterprises ideologically and politically, improved the ideological and political education of enterprises and carried out the "5 stresses and 4 beautifuls" activities...and so on and so forth. All these numerous tasks are very important and also have important contents which must be further perfected in the course of overall reorganization.

In the past, the above-mentioned numerous important tasks were separated and passed down to lower levels item by item. When they reached the enterprises, they had become a multitude of things, some even contradicting others. Overall reorganization is aimed at making overall plans for and proceeding to manage the various problems existing in the enterprises and various tasks. These should be implemented in an overall manner with an overall point of view and in accordance with their interrelationships.

Third, overall reorganization is constructive reorganization./

Overall reorganization is constructive reorganization and is essentially different from the past recovery reorganizations.

In a general sense, the two characters meaning reorganization invariably mean correcting certain abnormal phenomena and helping them return to normal. This is really so in the case of the reorganization of enterprises which was carried out after the smashing of the gang of four. Since the 3d plenary session of the 11th CCP Central Committee, the further reorganization of enterprises has had new contents and is no longer completely of a recovery nature. At present, it is possible that in a small number of enterprises, the recovery reorganization has not been completed well. But, as far as most enterprises are concerned, they must proceed from the reorganization which gives priority to recovery to the reorganization which gives priority to construction.

For example, in the course of the recovery reorganization, in reorganizing the leading bodies, first it was necessary to ferret out scoundrels who sneaked into the leading bodies and then to enhance the quality of leading bodies, by fulfilling the four modernizations requirements of making them more revolutionized, younger, professionally more competent and more educated. As constructive overall reorganization, it is far from enough just to fulfill these requirements. It is imperative to give consideration to the question as how to establish a leadership system which can fully embody the nature of socialist enterprises.

Seen from the reorganization of the contingent of staff and workers, first, order was brought out of chaos ideologically and politically; various kinds of ideological bad influence spread by the gang of four were eliminated; factionalism was liquidated on the basis of achieving unified understanding and the situation of stability and unity was thus consolidated. On this basis, work units and work discipline were reorganized. The training of all staff and workers was started in order to raise their educational and technological levels. As a constructive overall reorganization, it is far from enough to do a good job only of these tasks. Consideration should be given to the question of how to improve the quality of staff and workers in every aspect, politically, culturally, technologically and professionally and how to build a contingent of staff and workers who are highly conscious, technically proficient, strict in discipline, honest and upright and both red and expert so as to enable it to become the backbone in consolidating the proletarian dictatorship and in building socialism.

In terms of the reorganization of enterprise management, in the course of recovery reorganization, first, efforts were made to reestablish necessary rules

and regulations and restore normal production order. Then on the basis of summarized positive experiences, attention was paid to absorbing advanced foreign managerial experiences. Along with the development of the readjustment and restructuring, efforts were again made to change the enterprise management from production management which concentrates solely on the inner sectors of enterprises to the management which attaches importance to the operation and management which make great efforts to improve the economic effect. Thus overall reorganization requires us, on the basis of these already gained successes, to systematize the enterprise management and build a set of scientific and civilized management systems which tallies with the properties of socialist enterprises and the objective economic laws and has Chinese characteristic.

The overall reorganization of enterprises is a multipurpose and constructive reorganization of overall importance. In other words, it is a reorganization which is carried out under the guidance of a long-term strategic goal. The long-term goal is to build the enterprises into modernized socialist enterprises with highly developed material and spiritual civilizations and with Chinese characteristics. The basic requirements for accomplishing this goal have been summarized by the CCP Central Committee and the State Council into: doing a good job of the 3 items of construction and fulfilling the 6-good requirements. The term "3 items of construction" means, through overall reorganization, gradually establishing a leadership system which is both democratic and centralized, a contingent of staff and workers who are both red and expert and a set of scientific and civilized management systems. The term "6-good requirements" means, through the "3-item construction." Enterprises are required to correctly handle the economic relations of the state, the enterprises and the individual staff and workers, to brilliantly fulfill the state plans and to become "6-good enterprises" which are good in giving consideration simultaneously to the 3 items of construction, in terms of product quality, economic effect, work discipline, civilized production and political work.

As the basic contents of the overall reorganization of enterprises, the "3-items of construction" and the "6-good requirements" are, of course, impossible to accomplish wholly in a short period of time. It is necessary to draw up programs for reorganization in the light of the different and specific conditions of the various enterprises and realize them step-by-step. Overall reorganization must have either a long-term goal or short-term requirements. In the light of the problems widely existing in the enterprises at present, the CCP Central Committee and the State Council have called for first priority to be given to the following five tasks:

1. Reorganizing and perfecting the economic responsibility system, improving the operation and management of enterprises and doing a good job in overall planning, quality control and business accounting; 2. Reorganizing and strengthening work discipline and strictly enforcing regulations concerning rewards and disciplinary actions; 3. Reorganizing financial and economic discipline and improving the financial control system; 4. Reorganizing work units, arranging production according to a fixed number of workers and fixed quotas, systematically training all staff and workers and firmly overcoming



overstaffing and laxity; and 5. Reorganizing and building leading bodies and intensifying the ideological and political work among the staff and workers.

Here, stress has been put first on the "3-items of construction" and the "6-good requirements," then on the "5 tasks." This may possibly make some comrades feel that they have too many things to attend to and scarcely know what to do. In fact, so long as we make a detailed analysis of them, we can see that these many contents are actually the contents of the "3-items of construction" if we summarize them. Giving first priority at present to the five tasks means in fact carrying out the tasks of the "3-items of construction" by starting with the five tasks which have to be done most urgently at present. Reorganizing and building leading bodies is precisely the starting point for establishing both a democratic and centralized leadership system. Intensifying the ideological and political work, reorganizing work units, strengthening work discipline and systematically training all staff and workers and so on and so forth are just the important contents of establishing a contingent of staff and workers who are both red and expert. Reorganizing and perfecting the economic responsibility system, improving the operation and management of enterprises, doing a good job in overall planning, quality control and business accounting, reorganizing financial and economic discipline and improving the financial control system are exactly the starting point for establishing a set of scientific and civilized management systems. With regard to the "6-good requirements," they constitute some basic indications of successes in the "3-items of construction." It can thus be seen that the overall reorganization of enterprises is in essence carried out around the "3-items of construction." For this reason, we say that overall reorganization is a constructive reorganization. The end goal of carrying out the "3-items of construction" in a planned and orderly way and in the light of the conspicuous problems widely existing at present is to build the enterprises into socialist modernized enterprises with highly developed material and spiritual civilizations and with Chinese characteristics. When we understand the overall reorganization of enterprises in this way, we will be able to realize the great strategic significance of the overall reorganization of enterprises proposed by the CCP Central Committee and the State Council.

CSO: 4006/405

## NATIONAL POLICY AND ISSUES

### 'JINGJI GUANLI' ON SPECIALIZED REORGANIZATION

HK190725 Beijing JINGJI GUANLI in Chinese No 3, 15 Mar 82, pp 26-29

[Article by Sun Xiaoliang [1327 2400 5328] and Qin Zongyu [4440 1350 2485]:  
"Some Views on the Specialized Reorganization of the Machine-Building Industry"]

[Text] In 1978, the state officially decided that the machine-building industry should be reorganized in line with the principle of carrying out coordination of specialized production. Now, 4 years have passed since then. This reorganization has achieved certain results, but the progress in general was not fast. The state of affairs in the enterprises where production is being carried out in a "big and complete" way or in a "small and complete" way has not been fundamentally changed. The phenomena of irrational duplicate production have not obviously diminished. The specialized production of spare parts has not developed. Quite a lot of enterprises even resumed the production of those spare parts which had once been contracted out to other factories as coordination. Fairly great efforts have been devoted to some technologically specialized production. Some centers for dealing with castings, forging, electroplating and heat treatment have been founded in some of the large and medium-sized cities, thus reducing a number of scattered backward production units, but at the same time adding quite a lot of new production units. For reorganization, many new companies have been founded in all parts of the country. But only a small number of them were really welcomed by the quarters concerned and have achieved noticeable economic results.

What is the reason for the slow progress of the specialized reorganization? What is the way out? It is necessary to thoroughly review these problems and sum up our experience and lessons. There are mainly two points: One is to comply with the objective needs; the other is to comply with the economic laws. If these two points are maintained in our work, specialized production can be consolidated and developed; but if we do not adhere to these two points, specialized reorganization cannot be conducted successfully.

#### I. Comply With Objective Needs

The objective needs concerning the specialized reorganization include mainly two aspects: 1) There should be a market for selling products; 2) There should be the conditions that advanced equipment and technology are adopted.

Let us talk first about the influence of market demand upon the specialized reorganization. Specialized production can naturally help improve product quality, lower production cost and raise technical level, but another of its important roles is to increase production output. So, only when society is in need of a certain kind of product, can the specialized reorganization relating to this kind of product become necessary, and can this reorganization achieve economic results.

The Harbin printing machinery factory is a small factory with only 400 workers, mainly making Quarto printing machines which were in short supply for many years. In early 1980, this factory had an order for over 1,000 printing machines, but its capacity at that time was only 400. Under these conditions, this factory consulted with seven other factories which did not have enough production assignments and they formed an integrated general factory. It also reached agreements with a further 23 factories to carry out coordination of production on a bilateral basis. Castings were all produced and supplied by other factories, and its own casting workshop was then shut down. Many of the spare parts were also processed in other factories. The spare parts supplied by cooperative factories accounted for 40 percent of the whole. This factory is now shaking off the small and complete mode of production and developing toward specialization. After carrying out cooperation with other factories, it has achieved a result equal to an increase of 750 workers, 6,000 square meters of factory building floor space and 80 machines, and a saving of over 2.5 million yuan of investment. The yearly output of Quarto printing machines in 1979 was 400, in 1980 1,000, in 1981 as many as 2,000. The Xianjin oil pump factory has helped them produce the "frames for big rollers." The printing machinery factory itself had to take 4.5 man-hours to produce one of these spare parts with general equipment. But the oil pump works used highly efficient specialized equipment to process and it took just 1 man-hour to produce this high-quality spare part. Waste products were also reduced. Thus, the specialized coordination and integration was consolidated and developed under favorable circumstances.

On the contrary, if specialized coordination is organized for some products which find no market and are short of production assignments, the utilization rate of the capacity that has thus grown will become even lower. Reorganization in the production of bearings and engineering machinery conducted in many areas was the example of this problem. Because few assignments came down, all parties concerned found no necessity to carry out reorganization of these items, and their initiative could not be aroused. Even when the reorganization was carried out, no economic results could be seen from it; this was a dilemma.

Then, let us talk about the influence of technical equipment on specialized reorganization. Continuously raising the degree of specialization in production is fundamentally a necessity in technological progress. Since World War II, the machine-building industry in developed countries has been upgraded from the specialized production of products to the specialized production of spare parts and technological specialization, in which the same spare parts needed by different trades and products are concentratedly produced in massive quantities by the specialized factories. The necessity and possibility



of this specialized production can be found in the fact that the emergence of highly efficient processing equipment and automated production lines required production to be conducted in massive quantities. Only in that way can advanced technical equipment be utilized to achieve better economic results. That shows that specialized production is conditioned by the possibility of adopting advanced technical equipment. We must consider this condition when carrying out specialized reorganization.

Shanghai's standardized parts trade combined their reorganization with the adoption of advanced equipment and achieved satisfactory results. Many years ago, there were over 680 small factories in this trade. The same products were often produced in different factories in small quantities. The advanced equipment and technology, such as cold-forging and thread twisting, could not be adopted. Processing could only rely on manual forging individual cutting and other simple technology. Thus productivity was quite low. In 1960, they adjusted the division of their production according to the specifications and models of the products, increased their production quantities, thus creating conditions for adopting advanced technology. Several years later, they readjusted the division of production once more and further increased production quantities, thus creating conditions for adopting more efficient equipment, such as the gold forgers with multiple working positions. Owing to continuous reorganization and transformation, the number of workers in this trade was reduced from more than 10,000 to over 7,000; output of products increased from 2 billion items to 10 billion items; variety of products increased from several scores of kinds with over 2,000 specifications to over 300 kinds with over 30,000 specifications; utilization rate of materials increased from 40 percent to 85 percent. It is obvious that, when cold forgers were available, it was not necessary to concentrate on production in massive quantities. But if mass production was not concentrated, it was impossible to adopt advanced technical equipment.

However, the relations between specialized reorganization and technical equipment was sometimes not properly considered when this reorganization was conducted. If the production of spare parts is contracted out to other factories without conditions for adopting advanced equipment and technology, the economic results will not be improved but decline. There was a factory which once contracted 48 kinds of spare parts out, mostly to enterprises run by communes. In the course of this, no concentrated mass production was organized correspondingly. Thus, the production quantities did not change, nor was the production associated with technical transformation. The production was only based on the old equipment and the old technology. The level of equipment and technology was not raised, but the product quality was lowered. Production cost increased by 33 percent.

The above examples show that, only when the products meet the needs of society and are in short supply, coupled with the ability to utilize advanced technology and equipment in production, can we consider the objective conditions are ripe for carrying out specialized reorganization. Reorganization under these conditions complies with the objective needs, and it can smoothly yield satisfactory results just like pushing a boat along with the current. If the reorganization is conducted without the necessary objective conditions, just like helping shoots grow by pulling them upward, good results will never be achieved.

It should also be seen that these two factors act on one another. When production is based on old technology and equipment, the market may be lost due to poor quality and high prices. While new technology and equipment is adopted, products can become good in quality and low in price, thus winning a broad market. That should also be regarded as an objective need. As a result of this reorganization and transformation, the technologically advanced factories and production units will replace the backward ones step-by-step, thus greatly improving economic results in the whole society. That is the goal we want to attain through reorganization.

## 2. Comply With Economic Laws

The problems of complying with economic laws in conducting specialized reorganization are mainly two points: 1) To organize production and circulation in line with the laws of the commodity economy; 2) to harmonize the interests of all quarters concerned.

The specialization of spare parts production and processing technology requires that the bounds of different areas and trades should be broken and that the same spare parts of different products should be produced concentratedly and in massive quantities. But the most difficult problem that the current reorganization is facing is exactly that the bounds of different areas and trades cannot be broken. If departments in the central government take charge of the reorganization, the bounds of different areas can be broken, while the barrier between different trades will become larger. But if the reorganization is led by the area authorities, the bounds of different trades can be lifted, while different areas are kept farther apart. How can we simultaneously break these two bounds to organize specialized production? Following are two actual examples which can help us realize something.

In Weifang of Shandong Province, a factory making spare parts for tractor diesel engines has built an automated production line for making gudgeon pins and adopted a new technology for cold extruding. The yearly capacity amounted to 1.5 million units, compared with the old technology of processing by turning, the utilization rate of materials could increase by 67 percent, and the productivity could increase by 15 times. However, in 1979, this factory only received an assignment of producing 500,000 gudgeon pins, thus leaving two-thirds of the capacity idle. Meanwhile, more than 30 production units in the whole country were still producing the same products by means of backward technology.

Why could this obviously irrational state of affairs arise? Reasons can be found in two aspects: One is the planned distribution of the products. Under this system, which diesel engine factory should use which spare-part factory's gudgeon pins is decided by the superior department in charge of planned distribution. Thus, diesel engine factories in other provinces could not buy gudgeon pins made by the Weifang factory. The other is the unified prices of the products. The production cost of gudgeon pins made by factories in general was 1.6 yuan per piece, yet the cost of those made by the Weifang factory was only 0.6 yuan. But the ex-factory price of all these products was unalterably set at 2 yuan per piece. As far as the diesel engine factories that needed

gudgeon pins were concerned, they did not need to consider how low the production cost of the gudgeon pins had become, for they always bought them at 2 yuan each and could not share any benefits from the specialized production. That is to say, even if the system of planned distribution of the products was abolished and the enterprises were allowed to purchase what they needed by themselves, they still would not be certain to buy the products made by factories which conducted specialized production.

How did the specialized production of spare parts develop in other countries? In West Germany, there was an enterprise specially producing bracket rollers for conveyer belts, with 270 workers and a yearly output of 1 million rollers which sold well in many countries. The large companies producing conveyer belts, instead of making bracket rollers themselves, bought from this factory. That is the specialized production of spare parts we are talking about. However, more than 20 years ago, this enterprise was not a specialized factory specially making bracket rollers, but a factory making various spare parts for coalmine machinery. In our words, their production at that time was "small and complete." Then, many large companies making conveyer belts were also making bracket rollers by themselves, or conducting production in a "big and complete" way as we said. Afterwards, this factory made an important breakthrough in the technology of designing and producing bracket rollers. The quality of their products was greatly improved. Thus there were more and more buyers; production quantities were increased and the cost was reduced. In order to promote sales, the prices of their products were also lowered. Then the bosses of the companies producing conveyer belts found that, to buy bracket rollers from these factories would cost less than to make these spare parts themselves. So, they decided to stop producing these parts themselves and turned to purchasing them from the other factory. This kind of cycle made the production quantities of the factory specially producing bracket rollers become larger and larger. They could thus adopt equipment of even higher efficiency in production, and further reduce the production cost and expand sales. The specialized production of spare parts thus developed smoothly and naturally. Here we are just talking about one kind of spare parts. In fact, specialized production of other kinds of spare parts developed in the same way.

It can be seen through the comparison between these two instances that the transition from "complete" to "specialized" production must rely on organizing production and circulation in line with the laws of the commodity economy. That is to say, first, products can be freely bought and sold in the market--users can buy products from any producers and producers can sell products to anyone--making no distinction between different areas and trades. Next, prices are floating. Producers can lower prices of their products when the production cost is reduced, thus sharing advantages brought by the specialized production between both the main machine builders and the spare part producers, and harmonizing the interests of both sides.

In fact, specialized production is associated with the development of the commodity economy. In the past, we did not realize this point, and conducted specialized reorganization without linking it with the development of commodity relations. So, no breakthrough could be achieved. Now, the situation that



the bounds of different areas and trades cannot be broken results from the system of managing production, supply and marketing of the enterprises by areas or trades. Unless this management system is reformed, commodity relations will never be able to develop. If reliance is put wholly on straightening out ideology, the bounds of different areas and trades will never be able to be broken and it will never be possible to develop specialized production.

In order to carry out specialized reorganization smoothly, not only should the organization of production and circulation be in conformity with the laws of the commodity economy, it is also necessary to conscientiously adjust and harmonize the interests of the parties concerned.

Beijing Municipality has organized heat treatment centers and this can be taken as an example. The heat treatment workshop of the walking tractor factory is one of the heat treatment centers in Xuanwu District assigned by the municipality. It has successively undertaken, as coordination, all the heat treatment for six nearby factories since March, 1981. Before that, only 35 percent of its capacity for heat treatment equipment could be utilized. In January of that year, it incurred a fiscal loss of 8,600 yuan, and the workers there could only gain an average bonus of 2.16 yuan per person. After the heat treatment center was founded, along with the increase in production assignments, the utilization of its equipment's capacity increased to 65 percent. In September of the same year, it gained a profit of nearly 13,000 yuan, and the average bonus of each worker also increased to 10 yuan. The enterprises that it served could also enjoy the benefits of this specialized cooperation. One of them is the No 3 textile machinery spare parts factory, in which the heat treatment was a bottleneck that affected the full utilization of the whole capacity in the past. For example, the monthly production assignment of a spinning machine's lap rollers was 30,000 pieces in 1981, while its capacity due to its heat treatment was then only 20,000 pieces. After this work was handled by the heat treatment center, this guaranteed the accomplishment of their production assignment of 30,000 pieces per month and created the conditions for an increase in its output value and profits.

All the facts show that, in the course of specialized reorganization, we should recognize the principle of keeping all interests in harmony. The socialist relations of production determine that the fundamental interests of all enterprises coincide. This only means that, when interest relations are conscientiously adjusted, the harmony between interests of all parts can absolutely be attained. But it never means that this harmony of interests can be realized naturally without studying and adjusting the interest relations of all parts.

### 3. Several Suggestions

The purpose of studying the past experience and lessons is to make clear how we should act in the future. Based on the problems mentioned above, here are six suggestions:

1) Make it clear that the aim of specialized reorganization is to improve economic results, but not to set up more production companies, nor to merge some scattered factories simply for convenient management. Therefore, the specialized reorganization should not proceed from organizing new companies, but from developing the specialized production of spare parts and technological specialization, because only on the basis of this development, can concentrated mass production be organized and advanced technology be adopted to improve economic results. In the course of this, we organize companies where necessary; if companies do not need to be organized, we do not organize them.

The only criterion for evaluating the reorganization work is whether the economic results are improved. Reorganization measures that are unable to improve economic results should all be stopped. Where analysis of the economic results has not been made before the reorganization, this situation should start to be rectified.

2) Make it clear that no indiscriminate measures should be imposed while arranging the reorganization. There are two kinds of conditions that should be treated in different ways: If products sell well and have a good market, adding to advanced technology and equipment that can be adopted, reorganization should be conducted without any delay. If products do not meet the needs of society, or there is a dearth of production assignments, or conditions for adopting advanced technology and equipment are not available, we should first readjust the service orientation, and not rush into immediate reorganization. It is not too late to start the reorganization if one waits until the objective conditions are ready. In the whole machine-building industry, from product specialization to spare parts and technology specialization, there is a process of development which cannot be accomplished overnight.

3. Clearly map out plans and measures for reorganization and transformation. This includes the following problems: (1) It should be decided which products are in need of specialized reorganization in the light of market demands. (2) It should be decided which spare parts to produce and which work concerning casting, forging, electroplating and heat treatment needs to be transferred from the factories making finished machines to other coordinated factories, and which factories should offer this cooperation. (3) A solution should be found as to how these coordinated factories that specially produce spare parts or adopt specialized technology organize concentrated production in increasing quantities to serve all parties without distinction between areas and trades. (4) Measures should be taken to carry out technical transformation in these coordinated factories. The above are four links closely related to specialized reorganization and technical transformation. They need to be unifiedly and thoroughly coordinated and planned. Because these four links were not methodically handled in the past, the goal of improving economic results could not be attained. Positive and negative experience has told us that we cannot conduct specialized reorganization without considering the market for the products; we cannot only proliferate the production of spare parts without organizing concentrated production of spare parts at the same time; we cannot only conduct reorganization without associating it with technical transformation.

4. Clearly realize that reorganization should be linked with reform. There are at least two points that need to be maintained: (1) Regulation by the market mechanism should be put into effect under the guidance of state plans. When the factories making finished machines need to buy spare parts from other factories, or need technological cooperation from some other factories, and when the factories producing spare parts are going to sell their products to some factories, they should not be limited by the bounds of areas and trades and their transactions should not be rigidly controlled by the superior departments in charge. The enterprises should have the right to make their own decisions according to the analysis of economic results. (2) Floating prices should be implemented. The factories producing spare parts or providing technological service should have the right to adjust their prices downwards when their production costs have been reduced. The state can stipulate floating margins, but not unified prices.

5. Clearly realize that work should be done according to the principle of keeping the interests of all parties in harmony. Specialized reorganization is a process of adjusting and harmonizing the interests of all quarters concerned. Following are the main points that should be taken into account: (1) All parties can get what they need from each other to offset their weak points by making use of others' strong points. (2) All parties can make production more convenient and develop together. (3) The distribution of profits is fair and reasonable. (4) All parties concerned can have a chance to take part in decisionmaking and planning. How can the interests of all parties be adjusted? It is necessary to strengthen ideological work and to encourage mutual understanding and mutual accommodation. But what is more important is to rely on actual measures and to formulate necessary policies, to carry out regulation by means of price, tax, loans and other economic levers.

6. Clearly realize that administrative intervention should be enforced in line with objective laws. Administrative intervention in conformity with the objective laws can promote specialized reorganization; but administrative intervention that violates those laws can only bring adverse effects.

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## NATIONAL POLICY AND ISSUES

### 'JINGJI YANJIU' DISCUSSES INTERNAL PRICE RATIOS

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[Article by Zuo Mu [146 3668]: "Internal Price Ratios of Agricultural Products Must Be Well Adjusted"]

[Text] Judging from the current situation, there exists not only exchange at unequal value between industrial and agricultural products, but also irrational price ratios within the agricultural products themselves. The latter situation exerts fairly extensive and direct influence on the initiative in production of the peasants and even on the entire strategic policymaking on the agricultural front. Therefore, enough attention should be paid in this respect.

Of all the irrational price ratios within the agricultural products in our country, some were formed in the past and still have not been able to be altered up to the present, but the majority have been formed in the course of numerous price adjustments in the past years. In the past, when we adjusted the prices for agricultural products, the raising of the price for a particular product was based on the condition that the peasants were dissatisfied with the fixed price for that particular product and the initiative in producing it was low. The result was a harmful cycle of adding water to the thickening dough and adding flour to the surplus water. Comrade Mao Zedong pointed out this error as early as 1956. At the time, in order to rectify the trend of slighting sideline production and industrial crops by the peasants, the prices for the products of sideline occupations and industrial crops were greatly raised. But "by so doing, the peasants have become greatly interested in sideline production and industrial crops, and grain production has been neglected. At first, the scale was tipped in favour of food grain; and then in favour of by-products and industrial crops. Cheap grain hurt the farmers. Peasants did not like growing rice when the price for it was too low." (Mao Zedong: "Speech at the 2d Plenary Session of the 8th CCP Central Committee," "Selected Works of Mao Zedong," Volume 5, pp 316-317.) It seems evident that the erroneous tendency criticized by Comrade Mao Zedong early in the 1950's still exists to date. Indeed, the current raising of the prices for part of the agricultural products carries with it a certain amount of subjective and groundless handling of affairs.



For instance, an extensive investigation was carried out in 1979 among the 133 production brigades of the 56 counties in Jiangsu Province. The result showed that the existing price ratios between grain and oil were very irrational.

About the time when the adjustment of prices took place in 1979, the gains of the major cereals and oils were as follows: (unit: yuan)

Item	Net gains per mu			Net output value per standard labor day		
	1965	1978	1979	1965	1978	1979
Round-grained						
nonglutinous rice	17.46	7.54	24.34	1.30	1.10	1.58
Wheat	-1.25	13.67	38.37	0.82	1.29	2.08
Sweet potatoes	7.44	51.46	25.26	1.12	1.40	1.57
Broad beans	-2.70	-1.75	13.40	0.71	0.91	1.54
Peas		-8.90	15.90		0.57	1.42
Mung beans	2.51		-2.7	1.21	0.59	0.59
Chinese sorghum	-3.15	-9.40	-34.04	0.26	0.50	0.16

Generally speaking, in the last 15 years, the purchase prices for agricultural products have been increasing gradually, and the net output value per agricultural labor day has also been on the increase. After the readjustment of prices in 1979, the deficit for certain agricultural products was changed, and the problem concerning prices has been greatly eased. But the internal price ratios for agricultural products still have some shortcomings because of lack of sufficient time and preparation. For example, in 1965 before the readjustment, in terms of the income per mu and the income per standard labor day, the round-grained rice was the highest, the sweet potato and wheat ranked next, and the minor nonstaple grains like broad beans and peas ranked last. When readjustment took place in 1979, special consideration was given to the wheat area. The raising of the price for wheat was the highest, and growing wheat was more profitable. The income per mu from growing wheat was 57.6 percent higher than for growing round-grained rice; the net output value per standard labor day was 32 percent higher; and the income from growing broad beans and peas was even lower. Another instance was that, of the oil-bearing crops, the income from growing peanuts was 54 percent higher than from growing rape; and the net output value was 21 percent higher. Of course, the planning authorities had taken many factors into consideration when determining the scope of price readjustment. But the above situation was obviously due to the fact that the demand for raising the prices of wheat and peanuts was then voiced more strongly. As a result, the income from growing wheat increased from the lowest to the highest, and the income from growing peanuts also increased from relatively low to the highest.

Second, judging from the price ratios between food crops and industrial crops after the adjustment of prices in 1979, a new imbalance appeared in the price ratios between the major crops (such as cotton) and food crops. The price of cotton, after the two adjustments in 1979 and 1980, was 20 percent higher than the original price. This caused the widening of gap between growing cotton and growing grain.

According to typical investigations carried out by the Jiangsu provincial authorities of 21 representative production brigades, the situation turned out to be as follows: (unit: yuan)

	Grain (various species combined and averaged)	Cotton
Net output value created per investment of 100 yuan	101	388
Average profit per standard labor day	0.71	13.38
Average profit per mu	17.79	72.94

In 1979 and 1980, the price of cotton was raised by 20 percent for 2 consecutive years. The price of grain was raised by the same percentage. But owing to the fact that growing cotton had originally been more profitable than growing grain, the same percentage of price rise made growing cotton even more profitable, and the initiative for growing grain was seriously affected.

Of course, this situation appeared not only in the price ratios between grain and oil, but also between cotton and grain, and the influence was not limited to individual regions. For instance, in the countryside of Foshan region in Guangdong Province, there exists recently the demand to destroy the mulberry so as to grow the sugarcane, because growing sugarcane will gain far more benefit than growing mulberry. From this it can be seen that if attention is not paid to the internal price ratios within the agricultural products in the work of price adjustment, the carrying out of plans for cultivation will be affected; a chain reaction of demands for price rises may even be induced, thus causing new difficulties in the work of price adjustment. It will not do to presume that the general price range of agricultural products is comparatively low and will be raised sooner or later, and that the scope of price rises should pose no serious problems. As a matter of fact, because of the expansion of the rights of autonomy for the production brigades, plus the various forms of responsibility systems in production in all the agricultural units, the problem of the internal price ratios of agricultural products appears rather sensitive. Any mishandling of this problem would have a serious impact on the plans of cultivation. Therefore, the whole problem should not be slighted.

In order to conduct the adjustment of prices for agricultural products in a more scientific way, in addition to strengthening the work of cost investigation and other basic work, I deem it necessary to affirm the following three principles on the problem of internal price ratios within agricultural products:

1. In order to handle properly the internal price relations within agricultural products, there must be a unified profit rate, such as a guarantee that the investors in all the agricultural and sideline products can get an average profit through the means of price control. Since different agricultural crops will take different proportions of the invested capital, and have



different rates of land utilization, it is more appropriate to adopt an average profit rate for investment. Take cotton for example, the average cost plus the average profit rate will give the production price; and then the regional differential can be calculated based on this production price; in addition, some agricultural products may even enjoy seasonal differential prices. When evaluating the price according to the profit rate for individual sector investment, the land with its related quality may be included as an item of the fixed assets.

In recent years, capital for agricultural use has played an everincreasing role of importance. The difference in capital distribution and utilization among various sectors is very great, and must be considered when fixing prices. Therefore, the adoption of an average profit rate for investment is necessary in the agricultural sectors, so as to obtain a corresponding profit for a certain amount of capital.

Even if the prices of agricultural products are fixed with reference to production price for individual sectors, shifting of value still happens among different producers of various agricultural crops. For those products that utilize less capital, a portion of the new value created by the producers would be shifted to the hands of the producers whose products utilize more capital. For instance, a portion of the new value created by the grain producers would be shifted to the hands of the producers of cotton and tobacco. For the major industrial crops, because: 1) the land for cultivation is guaranteed; 2) food ration is guaranteed; 3) the supply of materials for agricultural use is normal; and 4) the market requirements are stable, plus the measure of fixing the prices according to production prices to ensure corresponding profits for their relatively higher investments, there should be no additional reasons for these crops to ask for profits over and above the average. Of course, for those important industrial crops like cotton, a somewhat higher price to encourage cultivation is necessary, but there is insufficient reason to enable the cotton producers to gain a net output value per 100 yuan of investment 2.84 times more than the value received by the grain producers.

Some comrades have expressed their concern that if the income is nearly the same for growing grain as for growing cotton, grain will dominate cotton or other industrial crops. But as a matter of fact, in those regions which enjoy the custom, techniques and facilities in growing industrial crops, the local peasants can still gain extra profits out of their technological superiority and low labor consumption even based on the fixed prices for individual production price. In addition, industrial crops absorb more capital and labor force, which will make the peasants feel reluctant to switch to planting other species. Therefore, for the major industrial crops to fix their prices based on individual production price, it will not hamper but facilitate the full display of the advantageous aspects of different regions, and, with proper centralization coupled with making use of the specific favorable conditions, create a good situation for the specialized development of agricultural production. In some places, the soil and climate are very suitable for growing certain industrial crops, but the quantity in production is unsatisfactory owing to the lack of familiarity with planting and the

related techniques. In this case, if prices are fixed according to individual items, the production will never increase. Therefore, if this particular crop is important enough, then the regional differential price system will help to expand a new production region. For example, some provinces in northern China are suitable for growing cotton, and though the per unit area yield is not very high, the initiative for growing this variety has been tremendously enhanced thanks to the raising of the purchase price plus regional differential subsidy. However, this should be regarded as an exceptional measure of adjustment. In normal circumstances, the fixing of prices should be based on production price for individual sectors.

It must be clarified here that the past phenomenon of grain pushing aside cotton or other industrial crops was not primarily due to price factors. On the contrary, it was the aftermath of political and administrative practices. Guided by the past leftist ideology, grain was the key link, and the question of whether to grow grains or to grow industrial crops was regarded as a matter of paramount importance concerning the political line. Thus a high political pressure was formed, and it was mainly due to this condition that the situation of "taking grain as the key link, to the exclusion of everything else" ensued. This problem has been gradually resolved since the 3d Plenary Session of the 11th CCP Central Committee. The second cause was that the food supply for those regions growing industrial crops was rather tight, forcing the producers to buy their grain at higher prices from the rural fairs, and made the peasants grow rice to replace cotton or mulberry. Therefore, if enough food ration cannot be guaranteed in certain industrial crop-growing regions, the purchase prices should be set higher to compensate for their losses. If the food ration is normal, then the industrial crops may be purchased based on the production price. It should be pointed out here that some problems, including the calculation of the profit rate for investment, remain to be solved.

We should point out further that we have to be very careful in making the policy of providing commercial grain in exchange for industrial crops. Nantong region in Jiangsu Province was famous historically for its high grain output. When carrying out the policy of exchanging cotton for grain to encourage cotton production in that region, it was discovered that the incoming grain was often unsuitable or even rotten, and was disliked by the masses. The prices of grain and oil were high in the rural fairs because of the scarcity of grain. The peasants complained: "Come in the daytime (meaning the raising of the cotton price), go in the dark (meaning the rise of grain prices in the rural fairs)." Therefore, starting from the concrete conditions of our country, in a specified area (such as in a province or in a big region), it is an appropriate policy to create favorable conditions to ensure self-sufficiency or near self-sufficiency in grain, so as to avoid long-distance transportation and long-term storage. Even in places where industrial crops are concentrated, maintaining a certain proportion of grain production is still beneficial in reducing state subsidies and long-distance transportation of grain, in stabilizing local grain prices in the rural fairs, and in the proper management of labor utilization and even distribution of different types.

Based on the above reasons, it is absolutely necessary in a certain period from now to stabilize the current prices for industrial crops, and reduce, when conditions of the state's finances permit, gradually the amount of purchase of grain or to raise the purchase prices, so that the gains between grain and industrial crops can be gradually balanced. Of course, in the current period, say 3 to 5 years, it is not expedient to further raise the purchase prices for agricultural products.

2. With regard to the internal price ratios between grain and oils, adequate preference should be given to minor varieties such as oil-bearing crops and food grain other than wheat and rice, and their prices may be somewhat higher than the average. This is because: 1) These varieties can often meet the needs of many quarters. For example, mung beans can be used to produce cold drinks; sorghum can be used to brew wine; glutinous rice can provide us with wine and food products; finely ground sesame oil can satisfy the special needs of hypertension patients, and so on. 2) These minor varieties are very easily neglected. Their planned sown area is often only partly planted because of the soft target of the plan. 3) These minor varieties are frequently scattered over large areas. They are lacking in scientific research, backward in plantation techniques, and relatively low in labor productivity. 4) If planned prices for these minor varieties are too low, they will be diverted to the rural fairs and fetch especially high prices, thus widening the gap between planned prices and rural fair prices and exerting a harmful influence on the stability of the overall price structure. The previously cited planned purchase prices of Jiangsu Province in 1979 demonstrated the fact that the gains from growing peas, broad beans and mung beans were much lower than those from growing wheat and sweet potatoes, although they were all of the dry land species. The net gains from sweet potatoes per mu were 25.26 yuan; those from broad beans, 13.40 yuan; those from peas, 15.90 yuan; and those from mung beans, -2.70 yuan. As for the net output value per person per day, sweet potatoes gave 1.57 yuan; broad beans, 1.54 yuan; peas, 1.42 yuan; and mung beans, only 0.59 yuan. This was the situation after the adjustment of prices in 1979. The prices were even lower before that. This has been the primary reason for the low figure of coarse grain production. Once the problem of enabling the planting of coarse grains to get average or a little above average profits has been solved, the situation of the scarcity of coarse grains would be completely changed. For instance, the Yanghe Daqu wine and the Shuanggou Daqu wine produced in Jiangsu Province are two kinds of wine famous all over the country. Their material is the local traditional product sorghum. Because the price of the sorghum was too low, and consequently there was a scarcity, these two factories had to get the material from the northeast provinces. With the costly transportation charges, the quantity of products could not be raised as desired. Now that the provincial financial authorities have granted a subsidy of 0.05 yuan per jin, the planned sown area of 300,000 mu has been readily effected. The local favorable aspects of planting sorghum have been fully utilized and the wine factories can now increase their productivity on a large scale. The result is beneficial both to the state and to the peasants. Therefore, adequate increase for the prices of the minor coarse grains is necessary and advantageous. The adjusted prices in 1979 for the minor oil-bearing crops were quite appropriate and therefore are not dealt with here.



3. The fixing of prices for industrial crops should also take care of the minor varieties so that the production of these varieties can fetch profits somewhat higher than the average profit rate for general investments. The main reasons are: 1) the areas sown to minor varieties of industrial crops such as peppermint, spearmint, day lily, dalmatian chrysanthemum and others have not been guaranteed and are easily neglected and pushed aside. 2) These products are mostly used for industrial materials and have significant influence on the production of light industrial consumer products. They are minor merchandise of a special kind, with more demanding planting techniques, requiring more delicate management and entailing a more complicated labor process, so they deserve higher remuneration for the additional efforts involved. 3) The sales of these products are not as stable as the sales of the major industrial crops. They are more subject to the requirements of industry, and are directly influenced by the international market, resulting in drastic fluctuations in prices. For all the above reasons, the prices of these small commodities should be somewhat higher than average. Specifically, the production price should be calculated first with reference to the profit rate for the investment of a particular sector, and then fix a market price which is a little higher than the production price. This market price should be kept stable and should not be altered at will.

In the past, when the sown area of these minor industrial crops became smaller, or the international market price increased because of greater demand, the prices for these products were raised sharply; but the prices would be reduced drastically if the products were in a state of surplus. Thus the production was regulated entirely by means of price fluctuations. The situation for the prices of the products of animal husbandry was similar. The result was like a man suffering from malaria, cold at one moment, and hot at another. Dalmatian chrysanthemum is an ingredient in mosquito coils, but was once very scarce because of low prices. The price of peppermint was raised tremendously because of the demand on the international market, but overproduction happened soon after. There were many other similar instances. It is imperative that a formula be worked out for the calculation of the prices of these small commodities, such as the method suggested in this article that products should be purchased at prices somewhat higher than the production prices. This is a requisite means to stabilize the sentiments of the peasants in production, and to prevent drastic fluctuations in purchase prices.

The purpose of our putting forward the above three principles for fixing the prices of agricultural products is to rationalize and standardize the internal price ratios of the agricultural products and to prevent and overcome the subjective and groundless handling of affairs. Of course, the rectification of the current prices should be carried out step by step with due attention to the practicability of the financial status of the state, and should not proceed too hastily. But if we can work out through consultations some principles and means in standardizing pricing procedures, the internal price ratios of the agricultural products will become more rationalized after a certain period of adjustment, and it will be much easier to resolve the price problems accumulated and left over from history.



'JINGJI GUANLI' REPORTS ON PROPER USE OF FOREIGN CAPITAL

HK201108 Beijing JINGJI GUANLI in Chinese No 3, 15 Mar 82 pp 34-36

[Article by Yan Weijin [7346 4850 6651]: "Utilize Foreign Capital Positively and Properly To Intensify the Transformation of Existing Enterprises"]

[Text] Taking the road of expanded production by intension and technical transformation of the existing enterprises and renovating their equipment is a focal point for the smooth development of the national economy of our country. Naturally, in undertaking the technical transformation of the enterprises we must principally rely on the financial and natural resources inside the country. Apart from this, the utilization of foreign capital in a positive and proper manner constitutes another important channel. Over the past few years, Beijing, Tianjin, Shanghai, Jiangsu, Shandong and other localities have taken various measures to absorb foreign capital, or contracted foreign exchange loans from the Bank of China, for the purpose of introducing certain advanced technology and importing certain key equipment. In this way, they have carried out a number of medium-sized and small technological transformation projects and achieved satisfactory results.

I. Replenishing the Country's Shortage of Capital Funds and Promoting the Growth in Production of the Light and Textile Industries

For a long time, our light and textile industries have been short of capital. This has affected the speed of their development. Responding to the demand for accelerating production in the industries producing consumer goods in the readjustment of the national economy, certain localities have focused on the light and textile industries in the utilization of foreign capital. Since the 3d Plenary Session of the 11th CCP Central Committee, Jiangsu Province has utilized \$175 million of foreign capital on technological transformation projects. Of this amount, 77 percent was spent on the light and textile industries. In Shanghai municipality, the technological equipment imported for the textile and handicraft industries occupied 72 percent of the total for the entire municipality. In Tianjin municipality, for over 20 years prior to 1977, the textile industry added some 150,000 spindles to its equipment by using capital construction funds of the state and funds earmarked for technological transformation purposes. However,

since 1978, some 100,000 new spindles have been added mainly through use of foreign funds (including certain domestic funds for accessory equipment). In Beijing municipality, from the years 1979 to 1980, the textile industrial system spent over \$45 million on the introduction of new technology, the importation of textile equipment and the technical transformation of 18 textile mills. This helped to lessen the contradiction of the industry's weaving capacity being greater than its spinning capacity and of its generally weak dyeing capacity. Thus, production was promoted. These funds, when converted into renminbi, were equivalent to 360 percent of the total investments from the state over the preceding 10 years.

## II. Upgrading the Technological Level of Production and Changing the Entire Countenance of Production

The technical transformation of existing enterprises should not be confined to merely renewing, or adding some new equipment, at the original level but should include improving the backward technology and renovating the antiquated equipment. The utilization of foreign capital can combine the work of technical transformation and that of introducing and importing new technology. This will enable us to absorb useful things from abroad and upgrade our technological level and the economic effect. For example, we have plentiful silk resources, but our silk filature industry has antiquated equipment and very backward technology. This has hampered the upgrading of the quality of our silk products. In view of this situation, in recent years, Jiangsu Province imported 20 sets of silk-weaving machines and a set of dyeing equipment for real silk. At the same time it imported certain metallic materials with which it produced various kinds of parts for silk spinning and weaving machines such as parts for spooling, ribbon lapping and drawing. In this way, a total of 5,000 sets of broad gauge silk spinning and weaving machines were built. The silk filature plants in the province were also rebuilt. As a result, the output of real silk-woven goods and broad-width silk filatures has doubled. In Shanghai, the No 4, No 5 and No 15 silk filature plants imported a total of 60,000 pieces of new-type threading spindles, 275 sets of broad-width heavy silk filature machines, 130 sets of new-type water sprinkling silk filature machines, as well as other accessories and equipment. As a result, the output of high-grade and superior-quality real silk filatures, silk fabric for Japanese apparel, and large-width crepe de chine increased. The countenance of the entire industry was thus initially changed. Also, in Shanghai, the No 2 electronic tube plant, using the compensation-trade method, imported from Japan a complete production assembly line for the automatic production of fluorescent tubes. Compared with the original equipment, the new set-up consumed 15 percent less electric power and 70 percent less gas. It raised the labor efficiency rate by 400 percent while the up-to-standard rate of the finished products was increased from 83 percent to 90 percent.

### III. Strengthening the Competitive Power in the International Market and Increasing Foreign Exchange Earnings From Export Trade

The good effects of the above-mentioned measures are even more evident in the following: The Shanghai garments No 2 plant imported a set of garment stitching and adhesive machinery of the advanced type at a cost of \$25,000. This filled a long-standing gap in garment-making technology. It is claimed that clothes made with this machine will not wrinkle after washing or ridge, shed, degum or become unglued. As a result, the number of orders rose from 25,000 suits to 110,000 suits. Similarly, the garments industry of Tianjin municipality used foreign capital to transform and renovate in varying degrees 80 percent of its subordinate plants. Seven specialized production assembly lines were formed. It was found that great improvements were made in the work and processing efficiency rate and in the quality of the garments made. The number of varieties was also increased. Compared with 1978, in 1980 output increased by 100 percent, foreign exchange earnings by 160 percent (amounting to \$60 million), and profits by 250 percent. The packing and decoration plant of the Shanghai light industry bureau made use of foreign loans and domestic funds (for producing accessories) to technically transform 14 of its printing plants. As a result, their packing capacity was greatly increased and the quality of their output was improved. In 1980, Shanghai's tea export managed to fetch much better prices than before as a result of the use of the new packaging method of these plants. The foreign exchange earnings from this source increased by \$15 million. This was equivalent to over 12 times the amount of foreign loans contracted for renovating these printing plants.

### IV. Assuring the Achievement of Good Economic Effect and the Ability to Repay

In the case of foreign loans for technical transformation projects, the foreigners are naturally concerned about our ability to meet the principal and interest payments on time. However, facts have amply shown that if the work is done well, there is no question of such payments being made on time. According to statistics compiled in Beijing municipality, 59 projects financed with foreign loans have been completed and are now in operation. The investments in them amounted to 52 percent of the total investments currently made in the municipality. It has been found that the capital investments can be wholly recovered in 1 year and 9 months and that their foreign exchange earnings in 1 year and 6 months are sufficient for the full repayment of the foreign loans. In the last 3 years, Shanghai municipality contracted 113 compensation trade projects with foreign businessmen. The gross value of the equipment supplied by the foreign businessmen amounted to over \$33.3 million. Up to now, capital repayment amounting to \$13 million has been made while loans on some 42 projects have been fully repaid. In 1978, the Nanjin wool filature mill of Jiangsu Province borrowed foreign money for the importation of 5,700 wool spinning

spindles. In the second year, it produced 1,100 tons of woolen fabric, obtained 10.58 million yuan of profits and taxes and repaid the foreign loans in full. According to statistics compiled by Tianjin municipality, since 1978 the municipality has used \$110 million in foreign loans to transform and renovate 123 projects. Of them, 38 projects have been completed and in operation. It is estimated that upon completion of all the projects, their output value will be increased by 1.1 billion yuan, that the profits will be increased by 270 million yuan, taxes by 120 million yuan, and foreign exchange earnings by 270 million yuan. On the basis of the utilization of the original premises and facilities plus additional sundry renminbi investments for accessories, on the average each dollar of foreign capital utilized will produce additional output value of 10 yuan, additional taxes of 3.50 yuan and additional foreign exchange earnings from exports of \$2.40.

Summing up the above, it may be seen that the utilization of foreign capital for the introduction of foreign advanced technology which we need and importing certain key equipment for the purpose of technically transforming and renovating our existing enterprises, particularly the large number of medium-sized and small enterprises, carries the following advantages: it is economical, turnover is rapid, the effect is good, there is no risk, the enthusiasm of the localities, departments and enterprises is aroused, and the foreign businessmen cooperate willingly. Such a scheme may be said to be both feasible and practicable and the loans can surely be repaid. This concerns the implementation of the central government's open-door policy and utilizing foreign capital and technology to augment our power of regeneration and self-reliance. In his government work report made at the fourth session of the Fifth NPC, Premier Zhao Ziyang pointed out the following: "Concerning the medium-sized and small enterprises producing goods urgently needed in the domestic and foreign markets, we should be more liberal in such matters as the use of foreign capital and the introduction of advanced technology. We have a large number of such enterprises. What most of them need is the introduction of certain key technology and equipment. They require only a small capital outlay but can soon greatly upgrade the quantity and quality of their output. Moreover, the investments in them can be quickly recovered. This pattern of making use of foreign funds is highly beneficial to the development of production in our country." Based on this spirit, the localities, departments and enterprises can act on their own in borrowing and repaying capital for the purpose of readjusting and developing our national economy. They are entirely at liberty to undertake all sorts of projects which conform with the conditions for production construction. Undertaking, albeit gradually, the work on these medium-sized and small projects, not in small numbers such as hundreds or thousands, but in large numbers such as thousands and tens of thousands, will play an important role in accelerating the technical transformation of our industry and the renovation of equipment.

The use of foreign capital to undertake technical transformation work requires, on the one hand, emancipating the mind, progressing in a positive manner and refraining from "binding one's own hands and feet." On the other



hand, we must go about things steadily and surely and must not be hasty. To achieve a relatively good economic effect, we must exert great efforts and a great deal depends on doing our work well. We are still at the beginning and have acquired little or no experience. This all the more requires that we handle with care the problems we meet in actual work. Judging from present conditions, we must grasp well the following points:

1) Perform well planning work and make a correct selection of projects. Planning should embrace the following: targets for the technological transformation, focal point, detailed projects, technology and equipment to be imported, procedural methods, utilization and source of foreign capital, arrangements for and implementation of the production conditions. All the above should be included in the entire technical transformation plan. The focal point in performing the planning well and making a correct selection of projects is that we must bear in mind the importance of promoting the smooth progress and healthy development of the national economy and of upgrading the economic effect. In future, we must emphasize the following: a) making effective arrangements for projects which embody the targets of upgrading the quality of the products, increasing the number of varieties, improving packaging and decoration, increasing the number of marketable products and expanding the amount of foreign exchange earnings from export; b) conserving energy, reducing consumption of raw materials, and producing more of the products in short supply; c) raising the technological level of the electrical machinery industry, particularly with reference to basic technology which we have not yet grasped nor mastered sufficiently, and acquiring the necessary and vital parts of the machines; d) preparing the ground, or making effective arrangements, for projects in agriculture, municipal construction and the tourist trade. Priority should be given to those projects which can make full use of the existing structure, which do not require much construction and engineering work but which can upgrade the economic effect and increase foreign exchange earnings through adding only a little supplementary equipment or renovating only certain parts of the equipment or improving certain aspects of the production techniques. Regarding each and every concrete project, we should carefully study its feasibility, work out or select the best plan for it, and pay special attention to the possible economic effect. We should link the macro-economic and microeconomic aspects as well as the present and the future. The relevant departments in charge and the localities concerned should strengthen their guiding work and effect an overall balance between the trades and industries and the localities. Before the formulation of an overall plan, we should first try out a few token projects so as to grasp the time element.

2) Introduce those key technologies and equipment that are suitable and bring the manufacturing capacity of the domestic machine-building industry into full play. In utilizing foreign capital for technical transformation work, an important point is that the techniques must be suitable for use and must be advanced. What is meant here is that they must conform with the existing economic level, technological standard and management skill in

the country and that they can immediately be used in production and construction, promote technological progress and achieve the best economic effect. They may be the most advanced techniques in the world, or only intermediate grade, or perhaps recently improved or reshaped. In short, we should introduce only those with the following features: techniques which we can digest after importation, which are suitable for use, can be easily kept up (meaning spare parts are available), can rapidly increase the variety of products, can improve the quality of products, can raise the productivity rate, can expand labor employment, and can augment the products' competitive ability abroad.

In many cases, advanced foreign technology is added to, or is imbued in, the equipment. Many foreign merchants are willing to loan us capital on the condition that the money is used to buy their equipment. For the sake of digesting and grasping the imported technology and renovating certain antiquated and backward technology of our own, it is essential, in the course of the technological transformation work, to import certain key equipment including tools and instruments. On the other hand, we should protect well our own production and bring the capability of our own machine-building industry into full play. We should not import equipment which can be produced in the country and can be produced in sufficient quantity. We should import equipment which we cannot produce in the country but which we need and which is suitable for our use. As for equipment which we can produce ourselves but whose quality is substandard or which we cannot produce in sufficient time and quantity to meet urgent needs, we may import a reasonable quantity for use and as a specimen and guide for future manufacturing. The importance of key technology and equipment and production of the domestic industry are both meant to promote our technological development. They should go hand-in-hand and not in opposite directions. The No 4 cotton spinning mill of Tianjin municipality, in utilizing foreign capital for technological transformation and concurrently importing cotton-yarn spindles from abroad, found that the textile machines of our own country were more advanced. Accordingly, it utilized a portion of the foreign capital to import steel materials and entrusted our textile machine-building plants to do the processing work. This is a good method and should be lauded.

3) Tightly grasp construction work, put the projects into operation on schedule, and carefully and scrupulously attend to management work. This constitutes an important link in giving full play to the economic benefits and in meeting the principal and interest payments on time. The utilization of foreign capital for technological transformation work requires a strong consideration for the time element. We must be on the move all the time and can afford no delays. It has been found that this way has always produced good economic results. For example, the Qingho woolen textile mill of Beijing municipality made use of a foreign loan of \$3.84 million and a domestic loan of \$7.64 million for purchasing accessories and importing 95 sets of textile machines. It placed the order in July 1979 and at once proceeded with the preparatory installation work. In February 1980, the equipment began to arrive. The mill immediately proceeded with the installation. In August of the same year, production started. By

September 1981, it had exported 900,000 meters of woolen textile products of fine quality. The foreign exchange earnings amounted to \$4.4 million, sufficient to repay the entire foreign exchange loan.

4) Grasp well the digesting, comprehending and promotion work in regard to the key technology and equipment imported. Some units have paid special attention to these points and have had commendable results. For example, in recent years, the Shanghai textile bureau made use of foreign exchange loans to import certain advanced textile equipment. Doing the digesting and creative work in combination with the special features of the locality, the bureau produced some 600 sets of textile machines in 18 different varieties. This helped in the renovation and renewal of the old equipment of the industry. Similarly, the Qingdao transistor parts plant of Shandong Province combined the good features of certain imported medium-cycle transformers and the superior points of the equipment and instruments supplied by its clients to turn out its own specially made machines and tools. It improved its original production techniques and formed a special type of domestic production assembly line for medium-cycle products. In labor productivity, it surpassed even its sister plants which used to enjoy a better rating.

5) Adopt a policy of assistance and promotion. In order to perform well this big and promising task of technological transformation through use of foreign capital, we should readjust the unsuitable links in the current system and policy. In general, we should widen the available channels, liberalize our policies, undertake assistance and promotion work and arouse the enthusiasm of all quarters concerned. For example, in appraising and examining the request for foreign exchange for the importation of a special type of technology, special considerations should be given. Concerning the examination of applications for importation of key equipment, the relevant procedures should be simplified, and the customs duties should be reduced, or exempted, or their payment deferred. During the period for the repayment of the capital of the foreign loans, special amenities should be given to the relevant plant in regard to tax or profits remittance. In general, the plants should be allowed to repay the loan first and remit the tax or profits afterwards. In principle, the enterprises contracting the loans should be responsible for their repayment but there are cases in which the departments in charge or the localities concerned undertake the repayment in part or in full. State banks should also study the feasibility of allowing the enterprises to borrow foreign exchange and repay the loans in renminbi, or vice versa. The former method will facilitate the repayment of foreign exchange loans by enterprises which can derive economic benefits from the contracting of foreign exchange loans for technological transformation but whose products are mainly intended for the domestic market and therefore cannot produce any foreign exchange earnings.

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'JINGJI YANJIU' DISCUSSES ENTERPRISE DECISIONMAKING POWER

HK191026 Beijing JINGJI YANJIU in Chinese No 3, 20 Mar 82 pp 39-43

[Article by Huang Zhengqi [7806 2182 1142] of the Economic Research Institute of the State Planning Commission dated December 1981: "Several Questions Related to the Expansion of State Enterprises' Decisionmaking Power in Operations and Management"]

[Text] More than 3 years have elapsed since the implementation in the last quarter of 1978 of the experiment of expanding the state enterprises' decisionmaking power in operations and management. Most of the enterprises have achieved remarkable economic results. Beginning in the second quarter of 1981, forced by the need to fulfill financial tasks, many provinces, municipalities and autonomous regions widely introduced the economic responsibility system whose main aspect is to make the contractor responsible for profits and losses. According to statistics, by the end of August of the same year, the proportion of state enterprises at the county level or above throughout the nation, which had introduced various forms of the economic responsibility system, was 65 percent (including over 6,000 enterprises which were involved in the experiment of the expansion of power of enterprises). The introduction of the economic responsibility system is, in fact, the continuation and development of the expansion of enterprises' power. In the course of carrying out expansion of enterprises' decisionmaking power, a series of theoretical and policy matters have cropped up which demand further probing and solution. On the questions relating to the importance of enterprises under the system of ownership by the whole people, the objective bases for the expansion of power of enterprises, the limits of the rights of enterprises under the system of ownership by the whole people, and the question of "assuming full responsibility for their own profits and losses," and the coordination of the expansion of power of enterprises and the structural reform of various economic management departments, the writer of this article is going to express his sketchy understanding and look forward to the comments of the comrades concerned.

1. The Importance of the Enterprises Under the System of Ownership by the Whole People and the Objective Bases for the Expansion of Power of Enterprises

In the discussion on the question of structural reform, there is a highly typical argument which says that the necessity of the expansion of decision-making power of enterprises is proved by the enterprises under the system of



ownership by the whole people being relatively independent commodity producers, the demand for the law of value, the enterprises having independent economic interests, the need to revitalize the microeconomic activities of the enterprises and other aspects. This argument is partially correct, but the problems in carrying out the experimental work in expanding enterprises' power have proved that this argument is far from accurate and comprehensive.

In terms of the importance of the enterprise under the system of ownership by the whole people, in the past we termed it a basic production and operational unit, but we did not recognize it as a commodity producer. During the "Great Cultural Revolution," one-sided stress was put on the enterprise being a place for class struggle, and its role as a production and operational unit was discarded. Now we recognize the enterprise under the system of the ownership by the whole people as a relatively independent commodity producer. This means, in essence, recognizing that the means of production exchanged among the enterprises under the system of ownership by the whole people are also commodities. This is undoubtedly important progress in theory. However, can the enterprise's role as a relatively independent commodity producer wholly express the nature of the socialist enterprises under the system of ownership by the whole people? Does the reason for expanding the decisionmaking power in any enterprise under the system of ownership by the whole people just lie in the fact that it is a relatively independent commodity producer? When commodity production withers away in the future, must an enterprise not have any power then? Must it become beads of an abacus which anyone can move at will? Obviously these problems call for urgent study.

In my opinion, the complete formulation of the role of socialist enterprises under the system of ownership by the whole people must include two inter-related aspects: first of all, they are the direct managers and users of the means of production under the system of ownership by the whole people and at the same time, are relatively independent commodity producers. Naturally, independent commodity producers must have independent decisionmaking power in operations and management, and relatively independent commodity producers must have relatively independent decisionmaking power in operations and management. However, the objective basis for the expansion of power of the socialist enterprises under the system of ownership by the whole people does not merely lie in the fact that they are relatively independent commodity producers. The expansion of the decisionmaking power of enterprises is, fundamentally speaking, the requirement of the socialist system of public ownership of the means of production. The socialist system of ownership of the means of production by the whole people means that the entire laboring people are the masters of the means of production. The position of the laboring people being the masters of the means of production is, in terms of the management and use of the means of production, realized in two ways: first, the enterprise as a social production command center, which represents the entire laboring people, exercises the macroeconomic rights of management and control over the means of production which are owned by the whole people.

Second, every laborer has the right to directly participate in the management and use of the means of production of his own unit. These two complement each other and neither can be done away with. Otherwise, it would be contrary to the position of the laboring people as the masters of the means of production and to the nature of the system of ownership of the means of production by the whole people. Thus it can be seen that expanding the power of enterprises and giving the enterprises a measure of decisionmaking power in operations and management is not only the requirement of the enterprises as relatively independent commodity producers but also the requirement of consolidating the system of ownership by the whole people and giving full play to the superiority of the socialist system of public ownership.

The crux of the problem of reforming the national economy's management system is to readjust the rights and material benefits of all concerned, to establish the responsibility system in each level from the central authorities to the localities and from the enterprises to the laborers so as to enable the entire people to play their part as masters at different posts and from different angles and to concern themselves with the development of the economy under the system of ownership by the whole people. In the course of granting a measure of decisionmaking power of enterprises, it is necessary to acknowledge that the enterprises have certain independent economic benefits and to enable the enterprises and the individual laborers to get material benefits. But the material interests involved in the structural reform are fundamentally still the common interests of the whole society. The present implementation of the economic responsibility system among industrial enterprises can be called "the expansion of responsibility." "The expansion of responsibility" and "the expansion of power" refer, in fact, to one thing. Both are required to effect the three-in-one combination of responsibility, authority and benefit. The core of the problem is "responsibility," that is, being responsible for the common interests of the whole society. Under the old system, the enterprises had neither rights nor responsibilities, which was detrimental to doing a good job of production as well as operations and management. Showing no concern for the improvement of the economic effect was first harmful to the common interests of the whole society. After the expansion of decisionmaking power of enterprises and the introduction of the economic responsibility system the fundamental aim of integrating the material interests of the staff and workers of the enterprises with the results of production and operations of the enterprises to a certain extent, of enhancing the sense of responsibility of the enterprises and the staff and workers for doing a good job of production and operations and of mobilizing the enthusiasm of the enterprises and the staff and workers is still to improve the common interests of the whole society. Thus, in the course of the structural reform experiment, whether in drawing up the ratio for profit deduction, the contracting base and the proportionate profit-sharing of revenue in excess of the fixed quotas or in formulating the orientation of the use of enterprise funds and the routine production and operational activities of the enterprises, it is imperative to correctly handle the relationships of the interests of the state, enterprise and the individual. We must not put the interests of the enterprise and the individual above

the interests of the state. Moreover, we must not one-sidedly pay attention to the interests of the enterprise at the expense of the interests of the state. Expounding the objective necessity for expanding the decision-making power of enterprises and the implementation of the responsibility system by proceeding from the commodity producers rather than from the socialist system of ownership by the whole people will easily lead to putting one-sided emphasis on material interests of the enterprises to the neglect of the common interests of the whole society. In carrying out experiments in reform, some symptoms of this tendency have emerged. For instance, some enterprises have tried to force down as far as possible the contracting base and the proportion of profits in excess of fixed quotas handed over to the state. The situation has even emerged where, in seeking the partial interests of the enterprises, a small number of enterprises have spared no efforts in violating the state's financial discipline and laws and decrees. They have adopted illegal operational means and erroneous measures such as evading taxes, forcing up prices, retaining profits which ought to be turned over to the state and arbitrarily issuing bonuses and subsidies--all of which harm the interests of the state.

The expansion of power of enterprises and the implementation of the economic responsibility system are aimed not only at bringing into play the role of regulation by market mechanism and enlivening the microeconomy but also at correctly practicing planned guidance and macroeconomic decisions. There is still commodity production and commodity exchange under socialism at the present stage and the market still plays a certain regulatory role in social production. In practical economic work, to give better play to the supplementary role of regulation by market mechanism, it is necessary to give the enterprises the relevant power as relatively independent commodity producers. If an enterprise does not have any power and all its production and operational activities are carried out under the instructions of the leading organizations at various levels, you cannot begin to talk about regulation by market mechanism alone. At the same time, an enterprise is also the organizer of the various factors of the productive forces. Regarding the state of their own productive forces (laborers, labor tools and objects of labor), how to correctly integrate their productive forces and how to tap their own potential and how to improve the economic effect, the enterprises more often than not have a clearer understanding than do the leading organizations which are removed from the production process. To bring this role of the enterprises into full play, it is also necessary to grant the enterprises a measure of power so that they can use the manpower and material and financial resources they have at their disposal to engage in the production and operational activities in accordance with the principle of achieving the maximum economic effect. However, the socialist economy is a planned economy established on the foundation of socialized mass production and the public ownership of the means of production. The effect of the economic development of the whole society depends not only on the efforts of the various enterprises but also on the planned guidance and macroeconomic decision of the various functional departments of the national economy. To correctly understand and respect the due power of the enterprises is the foundation for clearly defining the responsibilities and limits on the powers of the central and local functional departments (such as planning, materials, labor, pricing and financial departments and others). The central and local



functional departments must not excessively interfere with the matters within the power of the enterprises, but they should play a role in matters outside the limits of the enterprises' power. In this way the central and local functional departments can concentrate their efforts and energies on doing a good job in the work they should do. In this sense, the rational formulation of the limits of the enterprises' power is conducive to correctly bringing the enthusiasm of the central and local authorities into play. In addition, as a result of expanding the power of enterprises, the enterprises and laborers have had a measure of responsibility, authority and benefit, thus enabling the enterprises to initially subject themselves to the correct guidance of the state's macroeconomic decisions and to resist the "harmful directives" which run counter to the objective laws and are detrimental to the development of production. Of course, we must not believe that the greater the power of the enterprises the better. We must find a rational link in carrying out the experiment of the expansion of power, a link which is conducive both to the enterprises' activities to reinvigorate the microeconomy and to the state's efforts to strengthen its planned guidance and tighten macroeconomic control. The efforts to expound the necessity for expanding the power by departing from the economy under the system of public ownership, which is based on socialized mass production, and proceeding only from the position of the commodity producers will easily result in the situation where the regulation by market mechanism and the revitalization of the microeconomy are stressed one-sidedly while the role of the state's planned guidance and macroeconomic decisions is neglected and even negated.

## II. The Problems of the Limits of Power of the Enterprises Under the System of Ownership by the Whole People and Their Assumption of Full Responsibility for Their Own Profits and Losses

One of the forms adopted in the experiment of the expansion of power and the implementation of the economic responsibility system in industry is to carry out the practice of "paying taxes rather than handing over profits to the state, practicing independent business accounting and assuming full responsibility for their own profits and losses" among the large and medium-scale state industrial and communications enterprises. To this day, there have been over 200 enterprises throughout the country which have been carrying out the experiment of "assuming full responsibility for their own profits and losses." On the question of whether the authority, responsibility and benefit of the enterprises under the system of ownership by the whole people can be expanded to the extent of assuming full responsibility for their own profits and losses, there have always been two diametrically opposed arguments among the practical economic departments and economic theoretical circles. One argument holds that assuming full responsibility for one's own profits and losses is the inevitable tendency of the development of the expansion of power of enterprises and the economic responsibility system. The other argument maintains that the enterprises under the system of ownership by the whole people must not practice assuming full responsibility for their own profits and losses. Once it is practiced,



it will mean retrogression in the relationship of the system of ownership. Through the nearly 3 years of experiments in reform, how should we look upon the question of whether or not the enterprises under the system of ownership by the whole people can implement the measure of assuming full responsibility for their own profits and losses? In our opinion, the following aspects need to be pointed out:

1. The introduction of the practice of the enterprises under the system of ownership by the whole people assuming full responsibility for their own profits and losses is a question involving a series of economic rights, economic responsibilities and economic interests rather than a question of simply paying taxes rather than handing profits over to the state. Now that you allow the enterprises under the system of ownership by the whole people to practice the measure of assuming full responsibility for their profits and losses, you must simultaneously acknowledge that they have the right to increase profits and avoid losses in every possible way. In terms of "being fully responsible for their own profits," in order to increase profits, apart from improving operations and management, doing a good job in technical transformation and strengthening business accounting, the enterprises must still have the following rights: First, in order to ensure capital and maintain simple reproduction, the enterprises must have the right to dispose of all the depreciation funds and to renovate fixed assets. Second, in order to invest the funds they already have at their disposal in the production of the most favorable products, the enterprises must have the right to define the production orientation and to shift production to the manufacture of other products. Third, in order to increase profits and avoid overstocking and losses, the enterprises must have the right to fix the prices for their products, and they should be allowed to raise the prices for goods in short supply and reduce the prices for goods in excessive supply. Fourth, the enterprises must have the right to distribute and dispose of the net results of their own production and operations beyond fulfillment of the quotas. Here the rights to raise accumulation, expand reproduction and improve welfare treatment and wages of the staff and workers of the enterprises concerned and so on and so forth are involved. In terms of "being fully responsible for their own losses," the enterprises should bear important economic responsibility. First, under the circumstance where the enterprises produce meager profits and manage to ensure capital, if they still need to pay taxes to the state according to the categories of taxes and tax rates defined by the economic laws and decrees, this will certainly affect and reduce the welfare and bonuses of the staff and workers. Second, if the enterprises operate at a loss, not only will the welfare and bonuses of the staff and workers be affected but even their basic wages will possibly not be paid. Third, if losses in funds and bankruptcy of an enterprise occurs, the staff and workers of the enterprise (the leaders of the enterprise in particular) must bear economic and even legal responsibility and so on and so forth. It is, in reality, impossible for the enterprises under the system of ownership by the whole people to assume full responsibility for their own profits and losses if they divorce themselves from the rational formulation of the above-mentioned basic economic rights, economic responsibilities

and economic interests. At present, the measure of "assuming full responsibility for one's own profits and losses" in the experiment of the expansion of power is, in reality, a form of profit sharing. The major difference between the enterprises carrying out the experiment of "assuming full responsibility for their own profits and losses" and the enterprises practicing profit sharing lies in the replacement of the profits which have to be handed over to the state by income taxes which have to be turned over to the state. But there is no substantial difference in the fundamental economic rights and economic responsibilities. Thus, one cannot begin to talk about the assumption of full responsibility for one's own profits and losses. First of all, at present the enterprises carrying out the experiment of "assuming full responsibility for their own profits and losses" are generally profit-making enterprises which have good conditions in supply, production and marketing and manage to pay taxes and hand over profits. In addition, in working out the income taxes and the rates for the regulatory taxes, the vested interests gained by this kind of enterprise from profit deduction are actually already ensured. According to investigations, the profits retained by the enterprises under a certain light industrial machine building company between January and July in 1979 constituted 11 percent of the total amount of profits. After the introduction of the measure of "assuming full responsibility for their profits and losses" in 1980, the retained profits of the enterprises between January and July accounted for 16.5 percent of the total amount of profits. [words indistinct] the retained profits of the enterprise between January and July in 1979 made up 13.5 percent of the total amount of profits. After it assumed full responsibility for its own profits and losses in 1980, the ratio of its retained profits between January and July in the same year to the total amount of profits went up by 23.5 percent. Therefore, among the enterprises which are carrying out the experiment of "assuming full responsibility for their profits and losses," generally speaking, they have been making profits rather than operating at a loss. Although the amount of profit earned by the enterprises which are carrying out the measure of "assuming full responsibility for their own profits and losses" is a little larger than that earned by the enterprises which are practicing the other forms of profit retention, there is, generally speaking, hardly any significant difference between the two. Most of the profits earned by the enterprises ought to be handed over to the state's financial departments. That is to say, the amount of profit from above-quota products which the enterprise is entitled to dispose of and use in expanding reproduction and improving the livelihood of the staff and workers is fairly limited. Moreover, at present not only is the power for some enterprises "assuming full responsibility for their profits and losses" to dispose of the surplus products and use them in expanding reproduction limited, but even the power to ensure capital and maintain simple reproduction is also difficult to fully guarantee. These enterprises can dispose of only 70 percent of their depreciation funds, and the remainder should go to the state and the localities for their redistribution. In addition, the existing depreciation rate is very low, and a considerable part of the depreciation funds ought to be turned over to the state in the form of profits or taxes. Furthermore, judging from the present external economic conditions, it is also impossible for the enterprises to practice the

measure of assuming full responsibility for their own profits and losses. Whether an enterprise makes a profit or incurs a loss in business depends on the labor of its own staff and workers. Besides, the fluctuation of prices, the conditions of the taxation system, the amount of state investment and the quality of natural resources all have a decisive bearing on the operations of the enterprises. Particularly before the irrational phenomena in pricing and taxation are eliminated, if losses are really incurred in the experimental enterprises, the enterprises will also be unable to fully bear the responsibility for their own losses. In short, the enterprises which are practicing at present the measure of "assuming full responsibility for their own profits and losses" do not, in essence, assume full responsibility for their profits and losses. What they are practicing can at best be called the "profit-loss responsibility system."

3. In the present experiment of the expansion of enterprises' power under the system of ownership by the whole people, it is imperative to replace the formulation of "assuming full responsibility for one's own profits and losses" by that of "paying taxes rather than handing over profits to the state." The enterprises which are carrying out the experiment of "paying taxes rather than handing over profits to the state, practicing independent business accounting and assuming full responsibility for their own profits and losses" do not, in essence, practice the measure of "assuming full responsibility for their profits and losses." Instead they are practicing a form of profit sharing. Therefore, I hold the view that among the enterprises which are carrying out this experiment, the formulation of "assuming full responsibility for one's own profits and losses" must be abolished, and it is sufficient to replace it by the formulation of "paying taxes rather than handing over profits to the state." In so doing, the name will match the reality. If the categories and concepts used in economic policies are more in name than in reality, and if they are used for the sake of being simple and convenient and for sounding better, but in reality they are impossible to be put into effect, then this will be not only disadvantageous but also harmful to the economic development. Under the current economic conditions, the profit rate of some enterprises which are carrying out the experiment of "assuming full responsibility for their profits and losses" is on the high side. This is probably caused mainly by external factors, such as the fact that the prices are on the high side, and does not reflect increased effort on the part of the enterprises. Despite all this, the enterprises still argue: did you not say that the measure of "assuming full responsibility for one's own profits and losses" should be introduced? Now that we have produced more profits, we are only justified to distribute more and get more. If something contrary to one's expectations occurs and serious losses are really incurred in some specific enterprises, despite "assuming full responsibility for one's own profits and losses," the enterprises will be unable to fully bear the responsibility for their losses, and eventually the state has to take responsibility for their losses. It can thus be seen that what we have been practicing recently is not the measure of "assuming full responsibility for one's own profits and losses," but we have forced ourselves to call it this. This practice, which is more



in name than in reality, will be detrimental to the correct handling of the relationship of the economic interests of the state, the enterprise and the individual.

4. Whether the expansion of power of the enterprises under the system of ownership by the whole people can be carried out to the extent of "assuming full responsibility for their own profits and losses" has yet to be proved through further practice of structural reform. For instance, is it better to fully delegate to the enterprises the power to use enterprise depreciation funds and renovate fixed assets or delegate the greater part of it to the enterprises and leave the remainder to the state for redistribution as a means of achieving an overall balance? Furthermore, is there any necessity for the enterprises to have the power to raise accumulation and expand reproduction? On this matter, there are now three arguments: one argument holds that the power to raise accumulation and expand reproduction should be fully given to the enterprises. The practice of some socialist countries has proved that although this measure is conducive to the mobilization of the enthusiasm of the enterprises, it easily leads to blindness in production and construction and is thus unfavorable for the state to strike an overall balance. The other argument maintains that it is just enough for the enterprises to have the power to carry out simple reproduction, and the power to raise accumulation and expand reproduction should be put completely in the hands of the state. The practice at home and abroad has also shown that this measure is not only detrimental to arousing the initiative of the enterprises but also easily causes overextension of the scale of capital construction and disproportions in accumulation and consumption. The third argument considers that the principal part of the power to raise accumulation and expand reproduction should go to the state, but at the same time, a measure of it should be given to the enterprises. This will be favorable not only for the state to attain an overall balance but also for enhancing the enthusiasm of the enterprises for production and construction. In our opinion, the third argument is correct. However, on the matters of accumulation and expanded reproduction, where does the rational demarcation line defining the powers of the state and the enterprise lie? This needs to be answered by the further practice of the structural reform. Moreover, the full delegation to the enterprises of the power to define the production orientation and to fix prices will certainly give rise to anarchy in social production and to disproportions in the economy, while monopoly of the power by the state will be detrimental to the reinvigoration of the economy and to the realization of the integration of production with demand. The rational demarcation line of the powers of the state and the enterprises in these aspects also needs to be solved through practice.

### III. The Question of the Coordination of the Expansion of Power of Enterprises and the Experiment To Reform the Systems of the Various Functional Economic Departments and Responsible Departments

To expand the decisionmaking power of enterprises in operations and management and to grant due power to the enterprises as the direct managers and users of the means of production under the system of ownership by the whole people



and as relatively independent commodity producers, it is necessary for the functional departments and responsible departments of the national economy to delegate a measure of power. At the same time, under the situation where the enterprises already have the decisionmaking power in operations and management and have put regulation by market mechanism, into effect, how the various leading departments of the national economy adapt themselves to the requirements of the new situation and exercise proper and effective management over the enterprises is also an important question raised in the experiment of the expansion of power. In addition, for the functional departments and responsible departments of the national economy to really "return authority to the enterprises" and to do a proper job in the management of the enterprises under the new situation also means reforming the systems of these departments themselves. The expansion of power of enterprises and the reform of the various functional departments and responsible departments of the national economy are two aspects of one thing. Therefore, in order to achieve success in the experiment of reform of the whole national economic management system, it is necessary to manage to coordinate the expansion of power of enterprises and the reform of the various multiple state departments and responsible departments. Otherwise, the expansion of power of enterprises will be substantially limited or the situation will emerge whereby the power is delegated to the enterprises in name but not in reality, or some enterprises blindly wield their power in departing from the guidance of macroeconomic decisions. There is the question of these two aspects in the current practice of the experiment of the expansion of power of enterprises.

In the area of coordination in the present experiment of structural reform, we must at least firmly grasp the solution to the question in the following fields: first, the question of how to strengthen planned guidance under the new situation. After the introduction of profit sharing among the enterprises and regulation by market regulation, blindness emerged in production and duplication in construction to a certain degree. This state of affairs calls for urgent reinforcement of planned guidance. To do a good job of the reform of the planning system and step up the study of the question of planning work, we must not only discuss planning in theory but also formulate some specific "regulations" for doing a proper job in offering planned policy guidance to the production of various products of different types. Second, we must grasp the question of the study of economic legislation and its enactment. Of course, it is impossible to enact a series of complete laws and decrees in the early stage of the experiment of structural reform. However, along with the deepening of the development of the expansion of power of enterprises, it is advisable to draw up some clear provisional regulations at every step, so as to help the enterprises clearly understand which matters are lawful and which are unlawful. In this way, there will be regulations to go by in arbitrating economic disputes arising between different enterprises, between enterprises and various economic departments and between various departments. Third, under the condition of ensuring the state's financial revenues and the stability of the people's livelihood, it is imperative to do a good job of the reform of the system in pricing and taxation. Reform must be carried

out gradually. Those whose conditions are ripe can be reformed first. Uniformly freezing commodity prices is by no means a long-term strategem. Failure to solve this problem will prevent the enterprises from correctly combining responsibility, authority and benefit. Fourth, it is necessary to do well in the experiment of banking reform and give full play to the regulatory and supervisory role of banking in socioeconomic life.

China's socialist economy is a planned economy practiced on the basis of the system of public ownership. We need planning not only in developing the productive forces but also in readjusting the production relations and reforming the management system. It is necessary to regard the plans for the structural reform as an important part of national economic planning. To do a good job of the coordination of the experiment in structural reform, it is imperative to intensify the planned guidance over the reform work, overcome blindness and heighten consciousness. It is essential to study and enact long-term programs, general plans for the structural reform and concrete steps for their implementation and to have a unified and powerful leading body for the structural reform so as to ensure the smooth advance of the expansion of power and the whole reform work.

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## FINANCE AND BANKING

### SUPERVISION OF FUNDS TO SUPPORT AGRICULTURE STRENGTHENED

Beijing ZHONGGUO CAIMAO BAO in Chinese 30 Jan 82 p 1

[Article by staff correspondent: "Strengthening the Supervision of Funds to Support Agriculture and Striving for Better Economic Results, Banks of Agriculture in Various Localities Are Encouraging Communes and Production Brigade To Be Self-Reliant and To Use State Aid As a Subsidiary Measure"]

[Text] In accordance with the policy of economic readjustment, the banks of agriculture in various localities have strengthened their supervision regarding the allocation of funds in support of agriculture in an effort to achieve better economic results.

According to statistics compiled by the main office of China's Bank of Agriculture, a total of 6.68 billion yuan was allocated for the support of agriculture under the supervision of the Bank of Agriculture. This amount, added to the funds spent on developing the old revolutionary base areas and the minority nationality areas and those spent as relief funds of various types in the countryside, totalled 8 billion yuan, out of which 80 million yuan was withheld because of irregularities in their allocation.

In supervising the allocation of funds, the banks of agriculture at all levels considered their job in regulating state investments in the support of communes and production brigades as their main concern and actively conducted investigations and study in collaboration with the relevant departments. The banks implemented the principle of stressing the need for self-reliance among the communes and production brigades and using state aid as a subsidiary measure, and other principles including that of attempting only the possible which had proved to be effective and welcomed by the masses. These banks correctly worked out their projects for supporting agriculture, and made comprehensive arrangements for the use of state allocations, bank loans and funds raised by the communes and production brigades themselves, to help the poor areas and the poor communes and production brigades to stand on their own feet, and to support economic diversification and scientific farming in the countryside in a rational way. Last year, the Bank of Agriculture in Sichuan Province took part in the general planning and recommended the cancellation and postponement of 264 projects, thus reducing unjustifiable expenses by 1.74 million yuan. By monitoring under-the-counter activities, it discovered and stopped the payment

of irregular expenses totaling 2.81 million yuan. It also discovered other expenses of a questionable nature totaling 4.55 million yuan and helped recover 1.42 million yuan. Thus the bank made sure that all the funds in support of agriculture were properly spent. Some water conservancy departments in the province reported that as a result of the bank's supervision of the allocation of funds, they were now having "four lesses," namely, less withholding or misappropriation of funds, less half-finished projects, less useless engineering projects and less waste and loss.

Last year, when the system of production responsibility was introduced in the countryside, some households undertaking the "responsibility of work brought down to the households" and the "responsibility for all farmwork (formerly undertaken by the production teams)" were short of funds needed to buy farm animals and farm tools. The Bank of Agriculture in various localities, in collaboration with the financial departments, gave them active support. In Guyuan County of Ningxia Autonomous Region alone, more than 2.2 million yuan were appropriated, and loans totaling 2.92 million yuan were granted to help the "double-responsibilities" households purchase more than 16,000 farm animals and a large number of farm tools.

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## INDUSTRY

### SPECIAL MACHINES FOR LIGHT INDUSTRY PRODUCED IN SHANGHAI

Dalian ZUHE JICHUANG [MODULAR MACHINE TOOL] in Chinese No 1, 15 Jan 82 pp 2, 12

[Article by Zhou Peiren [0719 1014 0086] and Zheng Zhixun [6774 2535 6064]: "Shanghai Machine Tool Plant No 10 Striving To Produce Special Machines for Light Industry"]

[Text] Shanghai Machine Tool Plant No 10 is a medium-size plant with only some 600 workers and staff members. It was established in 1967 and mainly produced modular machine tools and power spareparts. In a period of more than 10 years, on different occasions it set up six automatic production lines for Motor Vehicle Plant No 2, the Shanghai Diesel Engine Plant, and some other units; and produced more than 120 modular machine tools and nearly 6,000 sets of power spare parts.

After the beginning of the national economic readjustment, however, this plant, originally intended for serving heavy industry, experienced a sharp drop in the demand for its products. There was hardly any need for its power spare parts, and its products became overstocked. The serious shortage of production tasks brought the plant great difficulties. Normally, arrangements were made in the middle of every year for the plant's production in the following year. By the end of 1980, however, only about half the production tasks for 1981 had been received. Some workers thought: "There is no future for modular machine tools."

In the face of a shortage of production tasks and the workers' low morale, the leadership of the plant, guided by the spirit of the Third Plenary Session of the 11th Party Central Committee and the principle of a combination of planned economy and the market's regulative role, organized a market-investigation team, comprised of leading members and business and technical personnel of the plant, to survey the market, to familiarize themselves with market conditions, and particularly to collect data on the special machines urgently needed by the light industry for the production of daily necessities. After analyzing these data, they discovered that many light industrial trades were in urgent need of special machines, and that this was a good opportunity for the plant to demonstrate its strong points. There was a good future for the production of modular machine tools after all. The plant accordingly changed its service orientation and undertook the task of manufacturing various machines for the light industry on the basis of market demand. In nearly 2 years, since the

latter half of 1979, the plant has received orders for "large multiple-spindle drills" to be used for the multiple-hold processing of vacuum couch rollers of paper-making machines; "automatic feeding equipment for punching machines" to be used by pharmaceutical products packaging plants for making metal containers for ointment for export; "special automatic machines" for bicycle parts plants; "production lines for finished machining of sewing machine casings after painting;" and other special modular machine tools, totaling more than 80 sets. By the middle of 1981, the special machines produced for light industry by the plant already amounted to more than half of its total annual production tasks. Now the plant is operating "above capacity" instead of "under capacity." Some of these special machines have received favorable comment by the users. The plant is expected to operate at full capacity in 1982.

Some cadres and workers had complained that "the production of special machines for light industry is not profitable and is a thankless job." The plant overcame their mental hurdle by convincing them of the need to serve the market and the light industry.

Since the special machines for light industry were bought by the customers with funds earmarked for upgrading equipment and because of the competition going on, the prices of these machine tools were generally low and the manufacturer could not make much profit. To bring about a unity of purpose among the workers, the plant reminded them of the need to promote the interests of the society and the state, rather than the interests of the plant alone. The plant made an accounting of the 25 sets of special automatic machines of five varieties produced for a bicycle spare parts plant, and found that the plant had spent one-quarter of a year's time on the production of these special machines with a total output value of only one-twelfth of its annual amount. It was true that such production was "not profitable." For the users of the special machines, however, an investment of 250,000 yuan could raise the output of bicycle spare parts fivefold, with an additional output value of more than 6 million yuan including an increased profit of more than 1 million yuan. This accounting greatly enlightened the workers. They said: "Since the special machines can help the state make so much profit, we should continue to produce it even though we earn less." Their enthusiasm for producing these sets of special machines was greatly enhanced, and they are now prepared to produce other special machines in addition to the "production line for finish machining of sewing machine casings after painting."

The plant has also paid attention to tapping its own potential, lowering the production cost and shortening the manufacturing time. In the past, the plant was only concerned with production and paid little attention to business methods. For more than 10 years there was little change in their products, so the production cost and profit could be more easily controlled. Now the plant is planning its production on the basis of market needs and there are new designs and new varieties to be added every year.

Despite the scores of special machines produced for the light industry since 1979, the plant has not acquired a single item of additional equipment and the state has not invested a single yuan in it. To keep pace with the growing market needs, its customers are always in urgent need of these machines. The

key to the reduction of the manufacturing time lies in the reduction of designing time. The plant then took full advantage of its experience in the use of clamping apparatuses, which not only helped reduce the manufacturing time but also lowered the production cost. In the first half of 1981, the "special automatic machines" produced according to contract were well received by the users, many of whom sent letters or agents to place orders. Since there was still some problem with the completion of its annual production tasks, the plant mobilized the workers to tap resources and again succeeded in producing 10 additional items in the second half of the year. These additional items not only satisfied the requirements of the users, but also increased the plant's revenues and profits. Its total annual output value is now expected to be even higher than in the preceding year.

Since each unit ordered only one special machine, the plant explored other resources by contacting similar plants in various parts of the country in a sales canvass. As a result, the plant not only obtained more orders, which helped increase its production, but it also received useful comments from various quarters which helped the plant to work out more practical details and parameters for its products. By cooperating with the users and taking advantage of their experience in the operation of special machines, the plant first constructed models according to the users' requirements and then carried out joint designs. This resulted in a meeting of minds between the plant and its customers so that the special machines produced could be "better operated, better repaired, better produced and better looking."

The plant is now planning to collect some typical parts for the light textile industrial trades for designing special machines as a technological reserve. For example, through certain adjustments and alterations in the automatic production line for the finish-machining of Model JAL-1 household sewing machine casings after painting, the same production line could also be used for JB or other models of sewing machines. For the special machines used in processing bicycle parts, plans have been made for the production of 26 varieties of special machines based on the outlines and threads of disc-shape parts of various types of bicycles. These special machines can be used for processing the flywheels and footpedals of bicycles as well.

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## INDUSTRY

### NANJING DEFENSE INDUSTRIES SERVE CIVILIAN NEEDS

OW130301 Nanjing Jiangsu Provincial Service in Mandarin 1100 GMT 12 Apr 82

[Text] Nanjing's defense industry has offered technological know-how in aeronautics, navigation, electronics and machine building, previously exclusively its own, to various civilian organizations, such as light industry, textile and food-processing departments, medical organizations and commercial units. More than 240 kinds of new technological know-how have thus been passed on the various civilian industries over the past 2 years. This has not only solved difficult technological problems for local industries but also raised their technological level to a new high.

The Nanjing auxiliary marine engine plant has provided nearly 500 factories in more than 30 different civilian industries with the technology concerning an oil-water separator used in ships. Used in milk processing, this separator can reduce the impurities and moisture in milk powder to as low as 1 part per 10,000 which surpasses the national standard for special-grade dried milk. The separator can also be applied to remove impurities from Zhenjiang vinegar, a famous product of Zhenjiang, making it possible for the vinegar to keep for a long time without precipitation. An improved model of the separator can raise the purity of lard to as high as 99.9 percent, meeting the specification for export. When waste water left from wool washing in the woolen textile industry is treated by the separator, not only the waste water meets the established standard for dischargeable effluent, but high-value lanolin can also be recovered.

Previously, the stainless steel flexible pipe made by the Nanjing (Chengguang) machinery plant had only limited application because it was supplied to a single user. Since 1980, the plant has held 3 on-the-spot meetings aimed at popularizing the techniques in connection with the use of this product. This has evoked extensive interest among civilian users, such as the chemical, light, textile and electronics industries, and as a result, they have quickly received the product. The Nanjing Qixiashan chemical works has used this kind of flexible pipe and found it twice as durable as that provided with the imported equipment. This means an increase in our country's ability to provide spare parts for imported equipment as well as a saving in foreign exchange.

Last year, a scientific and technological cooperation meeting was held in Nanjing. Defense industry enterprises offered more than 130 kinds of transferrable



technological know-how to the meeting. It was only after the implementation of the national economic readjustment principle that such technological know-how began to break through the confines of the defense industry and serve a large variety of needs in civilian industries. This represents a new way to achieve greater results with less money in promoting the technological transformation of industrial enterprises and in developing science and technology.

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## FOREIGN TRADE

### XIAMEN ECONOMIC ZONE WILL BE SOURCE OF FOREIGN CAPITAL

#### Construction Being Expedited

Fuzhou FUJIAN RIBAO in Chinese 10 Nov 81 p 2

[Article by Chen Mingge (7115 2494 2706): "Construction of Xiamen Special Economic Zone Being Expedited"]

[Text] After over a year's active preparations, the construction of the Xiamen Special Economic Zone is now entering a new stage. This article will present some personal views on the way to accelerate this construction.

The first stage of the engineering project on the Huli Industrial Part of the Xiamen Special Economic Zone will soon be started. To guarantee the speed and quality of the capital construction so that adequate material conditions can be provided for foreign investment in building plants, we must adopt new methods of management. Now that the overall plan has been submitted and approved, can a system of bidding be adopted for the small zones and the single item projects? In other words, after publicizing the requirements of the project designs and stipulating the deadline for completion in inviting bids, the plans submitted by several design units (including domestic and foreign units) for each single-item project should be studied by the construction departments of the special zone. These departments will compare these plans and choose the best. The advantage in this method is that we can mobilize the resources of various quarters, bring into play the strong points of many design units, pool their ideas, and then encourage their competition in bidding with regard to the artistic appearance, construction costs, and quality of work embodied in their plans. This method is certainly better than a "monopoly" in designing. The organization of construction forces should also be based on a combination of state arrangements and inviting bids. Based on the design selected, the special zone should consider the conditions stipulated by each of the various companies and choose the best conditions offered. When the choice of the construction unit for a certain project has been decided, there should be definite assurances as to the progress and quality of work, along with a system of economic bonuses and penalties. For example, the amount of bonus will be based on the amount of time saved by the advanced completion. The outlay on bonuses should be offset by the benefits derived from the earlier opportunity for foreign investment in the building of plants and from the faster circulation of funds. This is

advantageous to the overall situation. In so doing, we will have to break through some existing regulations of the construction departments and construction banks, and the special zone should be given some decisionmaking power in the use of construction funds. To speed up the progress of work and to guarantee the engineering quality after the project has been undertaken by the contractors, the control of labor should be carried out in a scientific way and in accordance with the principle of "to each according to his work" instead of "eating from the same pot." The special zone should be free from the existing restrictions on the ratio between wages and bonuses. This will also call for the coordination and support of the departments concerned.

While proceeding with capital construction according to the overall plan, we should study and formulate the plans for the economic development of the special zone. It is now clear that the Xiamen Special Economic Zone will mainly engage in processing goods for export, while at the same time serving the development of tourism. What should be the orientation of its development in the processing trade? In this connection, we should study the condition of resources in our province and municipality, study and predict the conditions on the international market, know the requirements of foreign markets, and possess the current economic, scientific and technological information in addition to other information on the trend of developments and other conditions. We will then be able to make our policy decisions without missing any favorable opportunity. Since the goods processed in the special zone are mainly for export, there will be the problem of our joining in the competition on the international market. We must choose the industrial projects which will help promote the development of our industrial technology and at the same time enable us to enter and maintain a foothold on the international market in the face of competition. We should avoid any project for which our present technical facilities are still inadequate. We must not export any of our overstocked products which are due to be taken off the market. This is the main orientation of development for our processing industry in the special zone. We have now decided to develop industries that cause less pollution, use less water and electricity, and call for labor intensiveness, and to gradually develop industries of the technology-intensive type. Based on our present conditions, we should welcome investors engaging in the electronic industry (including the production of household electrical appliances), in the light and textile industries, and in the industries of precision meters and instruments, garments, leather goods, toys, furniture, precision machinery, plastic ware, jewelry, foodstuff and printing. When foreign merchants come to invest in the special zone, we should beware of two possibilities on their part: first, the dumping of any equipment that is due to be phased out in the process of upgrading products and equipment in foreign countries, and the importing of high-price but low-quality parts to be assembled, in which case, our products would lack competitive power and might bring losses to our plants or even force them to close down; and second, keeping their eyes on our vast domestic market and bringing in goods to compete with our products of the same type and to clash with our industrial development. We must have constant and systematic contact with international and domestic fraternal special zones and know them thoroughly before we can take the initiative in our negotiations and policy decisions.

To guarantee smooth progress in the construction of the special zone, we must set up a highly efficient special zone administrative organ. This organ must be compact and efficient, with full authority and not too many administrative levels. There should be a small number of highly competent cadres, a clear-cut system of responsibility, and a distinctive system of reward and punishment. In other words, overstaffed and overlapping organs crammed full of incompetent personnel must be avoided. The enterprises and basic level units must be adequately staffed, although the organization of enterprises should also be based on the principle of "simpler government and better troops." Economic work must be carried out in accordance with economic laws and the principle of independence and initiative, and responsibility for their own profits and losses should be upheld. There must be a separation between government administration and enterprise management. The duties of the government and administrative organs will mainly consist of providing guidance and supervision in matters of policy; conducting investigation and study; uncovering problems and promptly working out or revising the regulations. They will also examine and approve the reports and contracts submitted by the enterprises, and then register them, issue the licenses, and collect and control the taxes. Instead of taking over wholesale the economic activities, which should be carried out by the enterprises in accordance with their duties, they should give the enterprises a free hand in business affairs. The enterprises in the special zone should have greater real decisionmaking power than the expanded decisionmaking power of enterprises elsewhere. The administration committee is a political power organ, and the company is an organization formed of the enterprises. There should be clear-cut duties and division of work for all levels, from the administration committee down to the sections (offices) of the enterprises, and all rights must be accompanied by responsibilities. We must have a centralized leadership and also be able to give play to the roles of every unit, department and individual so that we can work efficiently, arouse the enthusiasm in various quarters and train workers in economic relations with foreign countries, and thus operate the special economic zone well.

#### Absorbing Foreign Funds

Fuzhou FUJIAN RIBAO in Chinese 10 Nov 81 p 2

[Article by Hong Guisheng [3163 2710 3932]: "Some Proposals on the Absorption of Foreign Funds in Industry"]

[Text] The Xiamen Special Economic Zone is mainly intended for processing export products and at the same time for the development of tourism and other trades. Industry occupies the dominant position in the economic structure of this special zone. Regardless of the order of priority for different trades in the special zone, the need for foreign funds in industry after all cannot be ignored. The use of foreign funds for this purpose touches on many complex issues, and this article will present some preliminary views on the way to absorb foreign funds.



Up to now, in the special zones of both Guangdong and Fujian, very few projects involving foreign funds as already decided or still under negotiation have anything to do with industry, mainly for the following reasons: 1) since the infrastructural work is not yet ready, conditions are not ripe for investment in the building of plants; 2) economic legislation is not completed or remains uncertain, and the prospective investors have misgivings; and 3) the preferential treatments offered are not sufficiently attractive. Therefore, the special zones in both provinces are now speeding up their infrastructural work, while the central government is increasing its efforts in economic legislation. We should then be able to solve these two problems gradually. What is now the key problem with the absorption of foreign funds?

We have already given quite a lot of preferential treatment to foreign investors, such as the supply of low-cost labor, low rent for land and plant buildings, reduction or exemption from taxes, and so forth. All these measures should have certain power of attraction. However, at present the industrial areas in many countries in the world, particularly the developing Asian countries, are also fiercely competing with one another to offer preferential treatment to foreign investors. Then how we should offer ours is a question deserving careful study.

Many foreign investors are fascinated by China's rich resources and vast market, as usually reported in the foreign press. According to the data of investigations by a foreign research center, 51.4 percent of the enterprises willing to invest in China are interested in China's vast market, while 19.8 percent of them have a high opinion of China's natural resources. Combined, they form 71.2 percent of all these foreign enterprises.

In practice, we have now already opened part of our domestic market to these investors. However, there has been some confusion and misunderstanding regarding the methods used, with the result that our open-door policy has been received with mixed feelings. This problem, in the final analysis, is attributed to our inexperience and lack of an open-door policy based on macroeconomics.

Every country has economic cooperation or contact with others as well as a policy of protecting its own economic interests. These two considerations must be reconciled. The market must be opened, but not without limit. To encourage the investors to act in a way beneficial to ourselves, we should adopt a clear-cut and limited open-door policy, as we did in Fujian and Guangdong. This policy should distinctly stipulate the types and quotas of products permitted to be sold on the domestic market. For those items which are rare or nonexistent in our country and for which we have to rely on foreign imports for a fairly long time to come, and for the items which include a high percentage of our raw and semifinished materials and which have a higher foreign exchange earning capacity, we should, for example, consider the overall situation and permit their sales on the domestic market. We should compile a list of them for the information of both ourselves and foreigners. The quota of goods for domestic consumption should be, as a matter of principle, governed by our consideration of the foreign exchange generated (including labor wages, revenues from the raw and semifinished materials provided in our country, the rentals on land and plant buildings, taxes, profits and so forth). If necessary, the quotas may be exceeded, subject to approval (as though they were imports).

This policy has the following merits: 1) a greater attraction to foreign investment as a means of promoting our industrial development; 2) an increased supply of products or raw materials needed in developing the domestic market; 3) the encouragement of foreign enterprises to use our raw and semifinished materials in order to develop the trades dealing in these raw and semifinished materials; and 4) the expansion of our foreign markets. In doing this, some of our own industrial products, the foreign counterparts of which can be sold on the domestic market, will not be able to earn much foreign exchange in the near future. In consideration of the overall situation and from a long-range point of view, however, they can still yield both direct and indirect economic results. There can only be advantages and no disadvantages. For example, the Jiangqiao Corporation jointly operated by us and some Hong Kong merchants to produce heat-retractable plastic sheet has filled a gap in the packaging materials in our country. We cannot only use the portion sold on the domestic market as a substitute for imports, but we can also export the remaining portion to foreign countries. Therefore, we should carefully study this matter and try to make good use of it.

In short, if we will open up part of our domestic market in a planned way, many foreign investors, now taking a wait-and-see attitude, will gladly come to us. Then we can have a wide range of prospective investors to choose from and find the right ones to serve our purpose.

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